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Report to the Ranking Minority Member, Subcommittee on Housing and Transportation, U.S. Senate

October 2001

HUD MANAGEMENT

Progress Made on Management Reforms, but Challenges Remain

GAO

Accountability * Integrity * Reliability

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Abbreviations

CFO	Chief Financial Officer
CIO	Chief Information Officer
CPO	Chief Procurement Officer
CPD	Community Planning and Development
DEC	Departmental Enforcement Center
FHA	Federal Housing Administration
FMC	Financial Management Center
FSI	Financial Systems Integration
GMC	Grants Management Center
GTM	Government Technical Monitor
GTR	Government Technical Representative
HOC	Homeownership Center
HUD	Department of Housing and Urban Development
OIG	Office of Inspector General
PHAS	Public Housing Assessment System
PIH	Public and Indian Housing
REAC	Real Estate Assessment Center
TARC	Troubled Agency Recovery Center

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Accountability * Integrity * Reliability

United States General Accounting Office
Washington, DC 20548

October 31, 2001

The Honorable Wayne Allard
Ranking Minority Member
Subcommittee on Housing
and Transportation
Committee on Banking, Housing,
and Urban Affairs
United States Senate

Dear Senator Allard:

The Congress has long been concerned with management at the Department of Housing and Urban Development (HUD). In 1997, HUD began a management reform effort, called the 2020 Management Reform Plan, to resolve its management and operational deficiencies. We have reported that HUD has made progress toward overhauling its operations and addressing its management problems through these efforts. The new Secretary and Administration now face the challenge of sustaining the progress of reform so that HUD can meet its goal of transforming itself into a high-performing agency.

You asked us to determine the status of the initiatives adopted under HUD's 2020 Management Reform Plan. We responded to your request on HUD's information technology acquisition efforts in a report issued on September 14, 2001.[1] As we agreed, in this report we are providing information on HUD's progress and the problems it encountered in implementing the 2020 Management Reform Plan, focusing specifically on HUD's efforts to (1) consolidate and streamline its operations, (2) improve accountability and control of its programs, and (3) refocus and retrain its staff. We also provide observations on crosscutting areas that impact HUD's efforts to become a high-performing agency.

Results in Brief

HUD has experienced some successes in implementing the management reforms, but challenges remain. Some initiatives, such as consolidating and streamlining operations, were achieved relatively quickly and are producing results while other efforts, such as improving efficiency of

[1] *HUD Information Systems: Immature Software Acquisition Capability Increases Project Risks* (GAO-01-962, Sept. 14, 2001).

those operations and improving accountability, have been hampered by inefficient distribution of workload and other issues. Of the actions undertaken as part of HUD's 2020 Management Reform Plan, 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—has perhaps been the most successful. The new homeownership centers helped reduce the processing time of single-family mortgage endorsements from a few weeks to a few days while the new Real Estate Assessment Center enabled HUD to complete the first physical and financial assessments of its assisted housing inventory. However, the centers have not achieved all the efficiencies HUD envisioned because of imbalances in staff and workload, inadequate information systems, and other issues. HUD has also not been able to reduce the number of programs it manages, from about 300 to 70, as it had planned because it did not gain congressional approval for all of its legislative proposals and because it continued to add new programs and initiatives.

HUD has made some progress toward improving accountability and control of its programs. Specifically, HUD's actions included developing a strategic planning process, enhancing monitoring tools, improving some aspects of its information and financial management systems, improving contracting procedures, and establishing centralized entities such as an enforcement authority to follow up on problem properties. However, these efforts have been hampered by, among other things, a lack of resources for program monitoring and weaknesses in information and financial management systems. HUD has also experienced problems with contractor performance and its oversight of contractors.

HUD's efforts to refocus and retrain its staff have been somewhat successful. Over the past few years, HUD has undertaken initiatives that include creating new positions, enhancing staff training, implementing a new appraisal system for executives and managers, and improving its methods for estimating its staffing needs. However, some aspects of the reforms, such as the size of the staff reductions and the designation of some staff as "unplaced" as a result of the reorganization, were not adequately considered. Consequently, problems with staff morale, distribution of resources and workload, and program inefficiencies persist and continue to cause difficulties for HUD. In addition, the reforms may have exacerbated underlying human capital problems within HUD. For example, HUD's reduction in staff and the hiring limitations reduced its opportunities to bring on and train new employees in preparation of potential retirements. Recent estimates show that about 39 percent of

HUD staff will be eligible to retire within the next 5 years, placing HUD among the federal agencies with the highest percentage of retirement-eligible employees.

HUD faces a number of challenges that cut across its efforts to consolidate and streamline its operations, improve accountability and control of its programs, and refocus and retrain its staff. Successfully addressing these challenges in the areas of human capital, information and financial management systems, and acquisition management will determine whether HUD can sustain the progress of its management reform efforts and make progress toward its goal of becoming a high-performing organization. Some of these challenges are as follows:

- Strategic human capital management is the primary challenge facing HUD. It directly affects HUD's ability to effectively staff its operations and efficiently distribute its workload, monitor and oversee programs in both its centers and program areas, and oversee its acquisition processes and manage contractors' performance.
- Similarly, HUD faces the continued challenge of improving its information and financial management systems and software acquisition processes and ensuring that its investments in these systems support the efficient operation of HUD's centers and program offices and its ability to monitor and oversee programs.
- Acquisition management issues are increasingly important because contracting has grown at HUD over the past few years and is expected to continue to increase in the years to come. HUD will be making decisions about what types of work are best done by HUD employees or contracted out and on what staffing, training, and workload needs are emerging for managing its acquisitions and overseeing its contractors. These decisions will directly affect the efficiency of HUD's programs, the effective deployment of its staff, and its ability to monitor and oversee its programs.

These challenges will not be easily, nor quickly, resolved. Sustained management attention and the commitment of the Department's political and career leadership is necessary to sustain the progress of reform and address HUD's challenges. Under the 2020 Management Reform Plan, HUD made progress in addressing some of its significant problems and initiated major changes throughout the Department, but the Department still faces considerable challenges in ensuring that these management reforms will amount to sustainable improvements in HUD's programs and performance. HUD's new leadership has the opportunity to assess the lessons learned from the last few years as it involves its employees,

clients, and the Congress in establishing a shared vision for identifying and resolving the remaining challenges. Once consensus is achieved on the challenges and strategies, resources can be more effectively targeted toward resolving those issues deemed to have the highest priority. We plan additional work on the management challenges facing HUD, including its human capital and acquisition management initiatives, as well as continuing reviews of specific HUD programs.

Background

Since HUD began its reform efforts, we have developed a body of knowledge on the management functions that are key to becoming a high-performing agency and elements that are necessary for an organization to sustain management reform. Figure 1 shows the major management functions that are key to becoming a high-performing organization, based on the work we have done in identifying and defining performance and accountability challenges.[2] Figure 2 shows the six elements we have identified as crucial factors to building and sustaining successful management reform initiatives at federal agencies.[3] A successful reform effort requires leadership who articulates a clearly defined vision for reform and communicates this vision through a department's strategic plans and goals and desired outcomes. It also requires commitment from career, politically appointed, and congressional leadership, as well as rank-and-file employees. Thoughtful human capital policies are also needed to produce an empowered workforce with the skills and training needed to meet an agency's challenges. Further, sustaining the progress made by the reform effort requires well-planned information technology strategies that give key decision-makers the automated support and tools they need to carry out the agency's mission. And where an agency relies on private contractors and other external partners to carry out its mission, as HUD does in many of its activities, sustaining the reform effort requires that mechanisms are in place to ensure that the agency and its partners have the same understanding of the goals and objectives desired. Together, these two models provide criteria useful for evaluating the sustainability of management reform initiatives and an agency's progress toward becoming a high-performing organization.

[2] *Determining Performance and Accountability Challenges and High Risks* (GAO-01-159SP, Nov. 2000).

[3] *Management Reform: Elements of Successful Improvement Initiatives* (GAO/T-GGD-00-26, Oct. 15, 1999).

Figure 1: Major Management Functions Key to High-Performing Agencies

- Strategic planning
- Budget formulation and execution
- Organizational alignment and control
- Performance measurement
- Human capital strategies
- Financial management
- Information technology
- Acquisition management

Source: GAO.

Figure 2: Elements of a Successful Reform Effort

- Demonstrated leadership commitment
- Employee involvement
- Strategic planning
- Thoughtful and rigorous planning for human capital and information systems
- Organizational realignment
- Congressional involvement

Source: GAO analysis.

In the past, we have identified management functions such as financial management and information technology as "high-risk" because of their greater vulnerabilities to waste, fraud, abuse, and mismanagement. In January 2001, we identified strategic human capital management as a new governmentwide high-risk area. We reported that federal programs involving billions of dollars rely for their success on the performance of the federal government's people—its human capital. However, after a decade of government downsizing and curtailed investments in human capital, it is becoming increasingly clear that current human capital strategies are not appropriately constituted to meet current and emerging

needs of government and its citizens in the most effective, efficient, and economical manner possible.[4]

For many years, HUD has been the subject of sustained criticism for management and oversight weaknesses that have made it vulnerable to fraud, waste, abuse, and mismanagement. In 1994, we designated all of HUD's programs as high-risk because of four long-standing management deficiencies: weak internal controls; inadequate information and financial management systems; an ineffective organizational structure, including a fundamental lack of management accountability and responsibility; and an insufficient mix of staff with the proper skills. At one point in the mid-1990s, some suggested that the Congress should consider dismantling HUD if it were unable to operate with a clear legislative mandate and in an effective, accountable manner. HUD had undertaken other reorganization and downsizing efforts in 1993 and 1994. However, HUD's 2020 Management Reform Plan intended to finally resolve its managerial and operational deficiencies, among other things, and to ensure HUD's relevance and effectiveness into the 21st century.

HUD's 2020 Management Reform Plan was a complex and wide-ranging plan to change the negative perception of the agency by updating its mission and focusing its energy and resources on eliminating fraud, waste, and abuse in its programs. The reform plan presented two interrelated missions for HUD: (1) empower people and communities to improve themselves and succeed in the modern economy and (2) restore public trust by achieving and demonstrating competence. With these two missions, HUD's goals were to become more collaborative with its partners, move from process-oriented activities to an emphasis on performance and product delivery, and develop a culture within HUD of zero tolerance for waste, fraud, and abuse. The plan also indicated that HUD would demand accountability from its employees, grantees, and private- and public-sector customers and improve the accountability of its people and programs.

To achieve its new missions, HUD developed six specific reform efforts to substantially overhaul the way it did business. These six reforms, which focused on numerous organization and program changes, are stated in the plan as follows:

[4] *Major Management Challenges and Program Risks: A Governmentwide Perspective* (GAO-01-241, Jan. 2001), and *High-Risk Series: An Update* (GAO-01-263, Jan. 2001).

- Reorganize by function rather than program 'cylinders.' Where needed consolidate and/or privatize.
- Modernize and integrate HUD's outdated financial management systems with an efficient, state-of-the-art system.
- Create an enforcement authority, with one objective: to restore public trust.
- Refocus and retrain HUD's workforce to carry out its revitalized mission.
- Establish new performance-based systems for HUD programs, operations, and employees.
- Replace HUD's top-down structure with a new customer-friendly structure.

(See app. I for a description of the six reforms and the specific organizational and program changes required by each reform. See app. II for a summary of HUD's accomplishments and work that remains to be done for the major activities associated with the six reforms.)

In September 2000, we testified on HUD's progress in addressing its major management challenges as its tries to transform itself from a federal agency whose major programs were designated as "high-risk".[5] In January 2001, we recognized that HUD's top management had given high priority to implementing the 2020 Management Reform Plan, HUD's reorganization was substantially complete, and that the Department's efforts had resulted in some improvements in its operations.[6] Considering HUD's progress toward improving its operations through the management reform plan and consistent with our criteria for determining high-risk, we reduced the number of HUD programs deemed to be high-risk to two of its major program areas—single-family mortgage insurance and rental housing assistance.

[5] *Management Challenges: Department of Housing and Urban Development* (GAO/T-RCED-00-292, Sept. 26, 2000).

[6] *Major Management Challenges and Program Risks: Department of Housing and Urban Development* (GAO-01-248, Jan. 2001).

HUD Made Progress Reorganizing and Consolidating Its Operations, but Some Inefficiencies Remain

HUD's reorganization and consolidation efforts have achieved some successes, but not all inefficiencies that these efforts were intended to address have been eradicated. As we have reported, the Department's reorganization stemming from the 2020 Management Reform Plan is substantially complete. HUD accomplished the restructuring in a little over 2 years, having announced the plan in June 1997 and establishing, staffing, and benefiting from the new entities by the end of fiscal year 1999. Most notably, HUD consolidated and streamlined some of its operations into new specialized centers, such as the Homeownership Centers (HOC), the Real Estate Assessment Center (REAC), and the Troubled Agency Recovery Centers (TARC). However, not all of the new centers are operating as envisioned because of staffing problems, delays in implementing supporting systems, and imbalanced workloads. Further, HUD has not been able to reduce the number of programs it manages. As a result, HUD is not achieving all of the efficiencies it had anticipated.

Progress in Consolidating and Streamlining Programs Included Creation of Specialized Centers

Of the actions undertaken as part of HUD's 2020 Management Reform Plan, the effort to consolidate and streamline some of its oversight and processing functions has perhaps been the most successful since the centers are operational and achieving results. For example, specialized centers have assumed responsibility for HUD's single-family mortgage insurance program, physical and financial assessments, and enforcement activity. Some of the specific accomplishments in streamlining HUD's operations include establishing

- four single-family HOCs to consolidate single-family housing mortgage insurance activities previously carried out in 81 field offices. The HOCs have reduced the average time for processing single-family mortgage insurance endorsements from 4 to 6 weeks to an average of 2 to 3 days.
- an REAC to consolidate physical assessments of assisted multifamily properties previously done by two program offices that were using different standards.[7] In fiscal year 2000, REAC examined over 27,200 properties and reported that 83 percent of public housing developments and 85 percent of insured multifamily properties met HUD's general physical condition standards.

[7]REAC contracts with trained and certified inspectors to conduct physical inspections of rental housing that is owned, insured, or subsidized by HUD to ensure that the property is decent, safe, and sanitary. REAC conducts financial assessments of assisted rental properties to reduce the financial risk related to these properties and ensure that they remain viable.

- a Section 8 Financial Management Center (FMC) to consolidate budgeting, financial, and payment functions for both project-based and tenant-based Section 8 contracts. The FMC currently provides financial management support for about 10,000 Section 8 contracts from the Office of Public and Indian Housing (PIH) and the Office of Housing (Housing).
- two TARCs to assist failing public housing agencies in correcting major physical, financial, and management deficiencies. The TARCs currently have responsibility for about 50 troubled or poorly performing agencies.
- a Grants Management Center (GMC) to consolidate the processing, reviewing, and awarding of categorical and formula grants for PIH.[8]

Problems Remain With Consolidation and Streamlining of Programs

All of the new centers have not assumed the responsibilities as HUD envisioned and as a result, problems remain that affect the operations of HUD's programs. Specifically, our work indicates that HUD has not yet resolved issues pertaining to the effective use of staff and distribution of workload among centers and field offices, such that some offices may be understaffed, and others may be overstaffed.

Staffing imbalances still exist at the HOCs. According to the reform plan, HUD would consolidate its single-family operations and about 70 percent of its field staff into the HOCs. However, as of January 2001, about 44 percent of the single-family staff remained in 71 field offices because HUD subsequently decided not to force staff to relocate from the field offices. As a result, some of the HOCs are understaffed while single-family staff located in some field offices are not utilized in an effective and productive manner. HUD's internal studies have also noted this problem: for example, a review conducted by HUD at one office reported that eight single-family staff located at that office were not fully utilized.

In addition, HOC managers told us that they must ship case files to field offices for review, cannot assign large projects to offices with small numbers of staff, and that limiting field office staff to a single activity, such as answering telephone calls, can adversely affect staff morale.[9] We

[8]Categorical grants apply to specific programs such as Section 8 grants and are awarded competitively; first-come, first-serve; or by lottery. Formula grants are awarded to public housing authorities based on a predetermined formula and are not awarded competitively.

[9]*Single-Family Housing: Better Strategic Human Capital Management Needed at HUD's Homeownership Centers* (GAO-01-590, July 26, 2001).

reported that the effort required on the part of the center managers to delegate work in this manner hinders the centers' operations.

Also, the two TARCs have only about 10 percent of their planned workload that was envisioned under the 2020 Management Reform Plan (about 575 troubled public housing agencies) largely because of delays in implementing a new assessment system for rating the performance of public housing agencies. The Office of Inspector General (OIG) reported that as of September 1999, the TARCs had been assigned responsibility for only about 50 troubled agencies.[10] The report said that existing TARC staffing levels could not be fully justified and that HUD does not always effectively identify housing authorities that should be designated as troubled and sent to the TARCs for processing. In an August 2001 review of the Memphis TARC, the OIG again reported that a similar situation existed, and the staff were still not fully utilized. The OIG reported that the TARCs were accepting oversight of nontroubled agencies while awaiting full implementation of the new assessment system, partly to keep the staff busy.[11] Additionally, some HUD managers told us they believe that the field offices were more effective than the TARCs at working with troubled agencies because the TARC staff lack adequate training and experience. In January 2000, the Office of Troubled Agency Recovery, which oversees the TARCs, contracted with a consulting firm to standardize processes and operations at the TARCs to enable them to maximize the number of housing authorities each could manage. According to HUD, the contractor analyzed the maximum number of housing authorities that the TARCS could manage with maximum efficiency and developed a process to realize that goal. HUD has also revised the TARCs potential estimated workload to about 300 troubled public housing agencies.

While staff in some areas have not been effectively utilized, others have seen their workload and responsibilities increase. For example, Multifamily Housing field office staff may not have experienced all of the workload reductions expected because they continue performing some functions pertaining to the project-based Section 8 contracts that were supposed to have moved to the FMC and to HUD's new performance-

[10] *Survey of the Troubled Agency Recovery Centers (TARC) and Related Field Office Activities*, Office of Inspector General (99-FO-101-0802, Sept. 30, 1999).

[11] *Memphis, Tennessee Troubled Agency Recovery Center*, Office of Inspector General (2001-AT-0002, Aug. 17, 2001).

based section 8 contract administrators.[12] The FMC has experienced difficulties with converting the Multifamily Housing project-based Section 8 contracts to its information system, which was created for PIH's tenant-based Section 8 program. HUD reported that as a result, as of March 2001, Multifamily Housing decided that the financial management responsibilities for about 16,000 of 20,000 Section 8 project-based contracts would not be done by the FMC as planned. Also, HUD elected to address Section 8 control weaknesses through the transfer of functions to contract administrators. During fiscal year 2000, HUD started contracting with Section 8 contract administrators who would be responsible for conducting management and occupancy reviews as well as performing financial management functions. However, about 6,500 of these contracts have not yet been transferred to contract administrators and are being managed by HUD field staff. Thus, the work remains in the field and has not reduced the field office workload as intended. HUD reports that some Section 8 contracts have not been transferred to the contract administrators because of complex issues associated with contract renewals, negotiations with property owners, or designation as troubled properties.

The GMC was originally envisioned to be a fully self-sufficient office staffed with many outside contractors to help award categorical and formula grants for PIH. Because the center was to absorb the grants management workload from the field offices, the staffing level of field offices was decreased accordingly. However, HUD subsequently decided that some of the functions at the GMC were core government business functions that could not be assigned to contractors. The center does not have the capacity to handle all of these functions, so the contract management and oversight functions returned to field offices that no longer had the staff to handle the workload.

The results from REAC's physical inspections of multifamily properties may not be effectively used at the field office level.[13] Our recent review of HUD's evaluation of the results of REAC inspections found that field offices frequently did not follow the Department's procedures for ensuring that property owners correct all physical deficiencies. This contributed to

[12]HUD contracts with property owners to provide rental assistance to tenants based on their income.

[13]*HUD Multifamily Housing: Improved Follow-up Needed to Ensure That Physical Problems Are Corrected* (GAO-01-668, June 21, 2001).

HUD's physical inspections database overstating the number of properties for which repairs had been completed. On the basis of site visits we performed, we estimated that for about half of the properties covered in our review, at least 25 percent of the deficiencies that REAC classified as "major" or "severe" were not repaired. Field offices did not always comply with inspection follow-up procedures because of insufficient guidance and because HUD headquarters allowed the field staff to use discretion in implementing agency guidance without ensuring the proper exercise of this discretion. HUD also did not have a system in place for verifying owners' correction of physical deficiencies. In July 2000, we reported that questions remained about the reliability of REAC's physical inspections and that REAC has gaps or weaknesses in some of its quality assurance procedures that substantially limited their effectiveness.[14] For example, while REAC performed on-site reviews to assess the adequacy of physical inspections, it did not have procedures for ensuring that these reviews were performed systematically and that problems such as damaged flooring and exposed electrical wiring were resolved quickly and appropriately. Since our reports were issued, HUD has been taking steps to address the problems we identified.

In addition to the problems associated with the new centers, HUD has been unable to consolidate or reduce the total number of programs (about 300) it manages. HUD planned that the reorganization and congressional actions would reduce the number of programs to about 70, thus limiting potential problems associated with staffing reductions. However, not all the legislative changes that HUD proposed to assist in this consolidation gained congressional approval. The Congress and HUD's OIG have also raised concerns that HUD has continued to add its own programs and initiatives, some of which might not be related to its mission and that further strain HUD's staffing and resources. For example, the Department initiated a Gun Buy-Back Program during fiscal year 2000 to provide funds to housing authorities to purchase guns. It also started Teacher Next Door and Officer Next Door Programs that allow teachers and police officers to purchase foreclosed properties at reduced prices in certain neighborhoods. Consequently, HUD has not experienced all of the workload reductions expected from program consolidations.

[14] *HUD Housing Portfolios: HUD has Strengthened Physical Inspections but Needs to Resolve Concerns About Their Reliability* (GAO/RCED-00-168, July 25, 2000).

HUD Has Made Progress Toward Improving Accountability and Control of Its Programs, but Weaknesses Persist

Increasing accountability in HUD's programs was a primary goal of the 2020 Management Reform Plan, but the goal has not yet been fully met. HUD's efforts to "restore public trust" by improving the accountability of its people and programs underlay the six major reforms. HUD's numerous actions to improve accountability included developing a strategic planning process, enhancing its monitoring ability, improving information and financial management systems, improving contracting procedures, and creating new centralized entities, specifically an enforcement authority. Substantial challenges nevertheless remain to ensure that actions taken to date achieve the desired results. HUD faces challenges in improving its strategic planning process, improving monitoring, developing complete and reliable information and financial management systems, improving its contracting procedures and oversight, and ensuring the new centers achieve the efficiencies intended.

Program Accountability and Control Reforms

HUD's management reforms were a key component in HUD's strategic plan, which helps to hold HUD, its staff, and partners accountable for results achieved by HUD's programs. To comply with the Government Performance and Results Act of 1993 (GPRA), HUD issued its first strategic plan in September 1997, which included linkages to the 2020 Management Reform Plan for each strategic objective. Beginning with the fiscal year 2000 annual performance plan, HUD included the reform goal to "restore public trust" as one of its five strategic goals, with supporting performance goals and measures. In subsequent performance plans, reports, and the updated strategic plan, HUD revised this strategic goal to "ensure public trust". HUD reported this change reflected the evolution of its goals as HUD experienced results from the implementation of the 2020 management reforms. HUD developed a business and operating plan (BOP) process that established specific performance objectives for each program and field office and collected data measuring each office's contribution to achieving the established goals. We reported that HUD has continued to improve the presentation of its annual performance plans and reports, including developing more quantifiable measures, improving the discussion of data limitations, and incorporating information on HUD's human capital initiatives.[15]

[15] *Department of Housing and Urban Development: Status of Achieving Key Outcomes and Addressing Major Management Challenges* (GAO-01-833, July 6, 2001).

The 2020 Management Reform Plan stated that there was contradiction in having the same employees help grantees and customers access HUD's programs and then monitor the activities of those grantees and clients. HUD therefore established a "community builder" position to perform community outreach functions and designated other program staff as "public trust officers" with responsibility to conduct monitoring and oversight. Both community builder and public trust staff were given specialized training to assist in their refocused responsibilities.

HUD also took actions to strengthen program administration and reduce weaknesses in its monitoring and oversight. For example, HUD created a Risk Management Division in the Office of the Chief Financial Officer (CFO) to manage risk assessments of programs, track progress toward resolving audit findings, and coordinate with HUD management on financial management issues. HUD furthermore implemented a new training program on compliance and monitoring to emphasize consistent monitoring practices and procedures. HUD provided training to over 1,500 employees in 13 4-day sessions. The Department also implemented a Quality Management Review program during fiscal year 2000 to help improve its operations and identify best practices at field offices. HUD sends teams of staff to field offices to review processes and procedures and identify issues that affect the offices' ability to do its work. These reviews also serve as a means to provide and obtain feedback from managers and staff on specific problems. Through fiscal year 2001, HUD has conducted 21 reviews at various field offices across the United States. HUD also implemented the Credit Watch and Neighborhood Watch programs that enable the Federal Housing Administration to analyze trends in claim and default data by lender and impose sanctions on problem lenders, which assisted in its monitoring of lenders.

Information and financial management systems can improve accountability and control of programs if they provide reliable and complete data. HUD's management reform plan articulated a goal to modernize and integrate the Department's financial management systems into a single financial management system. HUD was engaged in a long-term effort to integrate its systems, eventually termed the Financial System Integration (FSI) project, which evolved into a plan to integrate as many as 100 separate systems into 9 new integrated systems. During fiscal year 2000, HUD reassessed the FSI project, determined it was over budget and did not meet its needs or achieve the results desired, and narrowed the scope of the project to completing a core general ledger system that is compliant with federal financial systems requirements. HUD reported that it completed the general ledger in November 2000 and declared the FSI

project complete. HUD also developed a Financial Management Vision statement to begin its work on the next generation of financial management systems. In commenting on a draft of our report, HUD stated it analyzed the vision statement developed by HUD's prior administration and is moving forward with two initiatives to improve its financial management systems. In addition, HUD implemented the prototype of an information system and data warehouse, known as the Enterprise Information System, formerly known as the Empowerment Information System, that is to provide HUD users and business partners with access to reports and analytical information across a large variety of program data sources. This system uses selected financial data and data from the Community 2020 software used for planning, mapping, and communication. HUD also reported it reduced the number of systems that do not conform to federal financial standards from 18 of 73 systems reported in fiscal year 1999 to 11 of its 67 financial management systems as reported in its fiscal year 2000 financial statements. HUD reported that five systems were discontinued or reclassified as nonfinancial systems and the Department corrected deficiencies in three of these nonconforming systems. HUD also established the Office of Chief Information Officer (CIO) and has expanded the role of the office to assume responsibility for the planning and acquiring of nonfinancial systems, such as the executive information system and the departmental grants management system.

As we reported in January 2001, HUD has also made some progress toward improving its internal control environment and addressing its long-standing financial material internal control weaknesses identified by the HUD OIG in its audits of HUD's consolidated financial statements. As of March 2001, the HUD OIG reported that HUD successfully addressed issues associated with a major systems conversion effort that had caused the OIG to disclaim an opinion on HUD's fiscal year 1999 consolidated financial statements. The OIG stated that its ability to conclude that HUD's fiscal year 2000 financial statements were reliable is noteworthy. HUD has made some progress since fiscal year 1999 in reducing the number of material internal control weaknesses that the OIG reports. The OIG reported eight material internal control weaknesses in fiscal year 1998 but downgraded, recategorized, or eliminated some—such that four remained as of the end of fiscal year 2000. This change was partially due to HUD establishing the REAC to assist in monitoring its multifamily property inventory, as well as the OIG's determination that HUD's human resource issues were better addressed as contributing factors to other material weaknesses than as stand-alone issues. We also reported that HUD has actions under way or planned to address other material internal control weaknesses, including an income verification process to determine

the extent of overpayments and underpayments in its assisted housing programs.[16]

In response to our recommendations,[17] HUD has also taken actions to improve its information technology investment management process. These steps include (1) establishing project scoring and selection process and a Technology Investment Executive Board Committee to make project selection and funding decisions; (2) developing procedures and a control process and establishing a senior review board to perform reviews of ongoing projects; (3) and developing evaluation procedures to determine whether information technology investments are achieving the expected benefits and to identify opportunities for further improvements.

HUD has also taken steps to improve its acquisition process and hold contractors accountable for their work. For example, HUD created an Office of the Chief Procurement Officer, a contract management review board, provided training for contract technical representatives and managers, and increased the use of performance-based contracts. HUD provided training to its Government Technical Representatives (GTR) to improve their ability to manage and monitor contractors.

In addition, the specialized centers help HUD improve accountability and control in its programs. These centers are separate entities whose functions are to collect data about HUD's and HUD partners' operations, evaluate the data, refer problems to field or program offices or take legal action when necessary, consolidate functions, and centralize activities. Most importantly, to help emphasize HUD's renewed focus on reducing fraud, waste, and abuse, HUD created the Departmental Enforcement Center (DEC) to consolidate all noncivil rights compliance enforcement functions for HUD's program offices. The DEC currently focuses on the problems of distressed multifamily properties that have failed physical and/or financial inspections that require corrective actions by owners, lenders, and management agents. HUD reported that, during fiscal year 2000, DEC actions resulted in the restoration of 41,344 housing units to decent, safe, and sanitary conditions, versus 968 in fiscal year 1999. In addition, DEC enforces administrative and regulatory business agreements

[16] *HUD Management: Status of Actions to Resolve Serious Internal Control Weaknesses* (GAO-01-103, Oct. 16, 2000).

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

by debarring or suspending lenders in noncompliance with HUD requirements and by imposing monetary penalties. HUD reported that DEC actions resulted in savings of $29.7 million to the federal government in fiscal year 2000, through recoveries obtained, savings in program funds, and avoidance of insurance claims.

Some Accountability Problems Still Exist

Despite all of these efforts, we have identified some areas in which HUD could improve accountability in its management and programs. Specifically, HUD faces challenges in improving its strategic planning process, monitoring activities, information and financial management systems, contracting procedures and oversight, and center operations.

While HUD has continued to improve its strategic planning process, it is unclear whether HUD achieved its goal to use the GPRA to increase accountability for results. We have reported that HUD's annual performance report does not clearly articulate the contribution of HUD's programs to the desired outcomes.[18] Specifically related to the 2020 management reform, HUD's progress toward reducing waste, fraud, and abuse in its programs is not clear, based on the results shown in the performance report. Also, we continue to raise concerns about the completeness and reliability of the performance data used to report HUD's activity. In a review of HUD's compliance with GPRA, the HUD OIG also reported that although HUD has improved its plans and reports, HUD is not fully complying with the requirements of GPRA. Therefore, the OIG concluded that the President, the Congress, and taxpayers are unable to fully use the plans and reports to measure the results and scope of HUD's operations.[19]

Monitoring of HUD's programs has been hampered by staffing issues associated with HUD's reorganization: staff reductions, a lack of experienced staff, and insufficient resources—such as travel funds—hinder effective monitoring. For example, the 2020 Management Plan noted that staff reductions of 23 percent in one program had prevented adequate monitoring. In this program, one field office from which HUD performed a quality management review in fiscal year 2000 reported that

[18](GAO-01-833, July 6, 2001).

[19]*Audit Report: HUD's Compliance With the Government Performance and Results Act*, Office of Inspector General, Department of Housing and Urban Development (2001-FW-0002, May 31, 2001).

staff shortages have reduced monitoring visits so that only 3 out of 40 homeless grants could be monitored during a 1-year cycle.[20] As discussed earlier, workload problems at the field offices and new centers hinder monitoring efforts. In some cases, the creation of new programs and regulations have further burdened the staff and may have adversely affected their ability to monitor their programs. In our survey of HUD's PIH managers, PIH managers told us they are not currently adequately prepared to assist housing agencies improve their performance because of the field office workload and workload relative to staff qualifications and training, among others. The HUD headquarters official in charge of field office operations acknowledged that field offices need additional training in part because of the numerous new and revised program requirements resulting from recent public housing reforms.[21] HUD announced a program called the Teacher Next Door in December 1999, which was an expansion of its Officer Next Door Program introduced in 1997, that allows teachers to purchase HUD-owned homes at 50 percent off the list price in HUD-designated revitalization neighborhoods.[22] In a February 2001 interim report, HUD's OIG concluded that the management control procedures that HUD had in place for the Officer/Teacher Next Door programs were not adequate, which significantly increased the risk of program fraud and abuse.[23] In response, in April 2001, HUD announced that it would suspend these programs for 120 days while it strengthened its oversight measures. In its June 2001 final report, the OIG reported, among other things, that in 23 of the 108 cases reviewed, homebuyers abused the program by not fulfilling the occupancy requirements.[24] Also, homes were sold outside of the designated areas and were therefore improperly discounted by about $1.2 million. The programs resumed on August 1, 2001 with new procedures for oversight.

[20]The Stewart B. McKinney Homeless Assistance Act, as amended, established federal programs to provide housing and services to homeless people. HUD administers many of these programs and provides funds in the form of grants to states, localities, and organizations.

[21]*Public Housing: HUD Needs Better Information on Housing Agencies' Management Performance* (GAO-01-94, Nov. 9, 2000).

[22]A revitalization neighborhood is one that offers significant opportunities for local economic growth and is, therefore, receiving targeted public and private-sector assistance.

[23]*Interim Results–Officer/Teacher Next Door Program*, Office of Inspector General (Report No. 2001-AT-0801, Feb. 14, 2001).

[24]*Nationwide Audit Results on the Officer/Teacher Next Door Program*, Office of Inspector General (2001-AT-0001, June 29, 2001).

The separation of community outreach functions from compliance functions encountered difficulties that limited improvement of the monitoring process. The community builder function, intended to help communities access HUD's services more efficiently and allow program staff to focus on "public trust functions," drew criticism from the Congress, HUD's OIG, and employees. According to HUD's OIG, to establish the community builder function, HUD had to allocate resources (salary, training, travel dollars, and personnel) from program monitoring and enforcement actions at a time when HUD was significantly decreasing its general workforce. HUD created 850 community builder positions, 390 were permanent career positions and 460 were 2- or 4-year temporary appointments, or fellowships. The majority of the HUD managers we interviewed told us that they did not believe that HUD was successful in separating community outreach from public trust responsibilities. Some managers and staff told us that because the community builders lacked expertise about HUD programs, program staff had to take time away from their responsibilities to educate the community builders.

Confusion about the role of the community builders and their authority also surfaced. A HUD consultant reported on the resistance and resentment surrounding the introduction of the community builders into the Department and recommended that HUD work with employees to address these issues and clarify the results the community builders were to produce. The Congress subsequently terminated the fellowship aspect of the program.

HUD has not yet achieved the 2020 management reform goal of having state-of-the-art and fully integrated financial management systems. In its audits of HUD's consolidated financial statements, the OIG reported that the most critical need faced by HUD in improving its control environment is to complete development of adequate systems.[25] While it was a reasonable decision to refocus and terminate HUD's FSI project given the expense and problems experienced, after a decade of efforts to improve them, HUD's information and financial management systems are still not sufficient to meet its needs and may not be for some time. Our work and that of the OIG show that despite HUD's various efforts to improve its financial systems, its systems do not provide sufficient support to its programs and business processes. For example, we found that the HOCs

[25] *U.S. Department of Housing and Urban Development: Audit of Fiscal Year 2000 Financial Statements* Office of Inspector General (2001-FO-0003, Mar. 1, 2001).

use a combination of older systems, called legacy systems, and newer information systems that are not integrated with each other. To compensate for insufficient systems, costly manual analysis and other inefficient practices are required to perform routine day-to-day work. Four years after the single family consolidation began, some systems still record data by field office or contract area rather than by HOC, requiring that the staff generate multiple reports and make manual calculations to perform analyses and develop reports. HUD also reported in its resource study, that information systems were not integrated, and data often had to be retrieved from multiple systems. As a result, systems do not efficiently provide the information that managers need to carry out program activities. These inefficient systems also reduce the staff's ability and amount of time available to focus on other activities, such as monitoring.

The OIG furthermore reported in its audit of HUD's fiscal year 2000 consolidated financial statements that the Department's financial management systems, including its core financial system, do not fully comply with federal financial system requirements.[26] In addition, the OIG reported that—

- Weaknesses remained in the supporting financial systems and that delays in integrating the financial systems continued.
- Although some improvements were made, management plans for additional systems improvements were not clear and had not been supported by adequate analysis.
- General control weaknesses remained in HUD's systems pertaining to its controls over the computing environment, administration of personnel security operations, and the reliability and security of critical financial systems.
- HUD's systems remained vulnerable to unauthorized access, and HUD's Central Accounting and Program System was vulnerable to errors and systems failures because of weak maintenance practices.
- Two material internal control weaknesses remained related to HUD's systems: HUD needs to (1) complete improvements to its financial systems and (2) enhance the Federal Housing Administration's (FHA) information technology systems to support its business processes.

HUD's OIG also reported that the Department has two other material internal control weaknesses pertaining to oversight and monitoring of housing subsidy determinations and ensuring that subsidies are based on

[26](2001-FO-0003, Mar. 1, 2001).

correct tenant income. HUD spent about $19 billion in fiscal year 2000 to provide rent and operating subsidies. Errors made in rent calculations and the misreporting of income by tenants result in HUD making higher subsidy payments than necessary. A recently completed study of rent determinations estimated that errors made by project owners and housing authorities resulted in about $1.7 billion in subsidies overpaid on behalf of households paying too little rent and about $0.6 billion in subsidies underpaid on behalf of households paying too much rent. Additionally, HUD performed computer matching of income reported by tenants with data from sources such as the Internal Revenue Service and Social Security Administration and estimated that housing subsidy overpayments from incorrectly reported tenant income totaled about $617 million, plus or minus $10 million, during calendar year 1999. Although, the 2020 management reform plan noted the importance of accurate subsidy payments as a means to reduce fraud, waste, and error in its programs, according to HUD, it did not fully address the nature and scope of the high incidence of program error and improper payments. However, HUD has since developed a more comprehensive corrective action strategy. In 2001, HUD instituted a Rental Housing Integrity Improvement Project to address HUD's high-risk status and material weaknesses in the rental housing assistance programs area.

High-quality software is essential for HUD's information systems to provide reliable management, financial, and administrative information and support for the Department's many programs. We recently found weaknesses with HUD's software acquisition practices in four key process areas: requirements development and management, project management, contract tracking and oversight, and software evaluation.[27] We found that HUD's software acquisition processes are undeveloped and are not repeatable on a project-by-project basis because of the many weaknesses it has in the specific management and oversight activities related to each process. Strong performance of these activities is essential for achieving effective, repeatable, and lasting implementation and institutionalization of the key process areas we reviewed. Currently, HUD's success or failure in acquiring software depends largely on specific individuals, rather than on well-defined and disciplined software acquisition management practices. As a result, HUD is exposed to a higher risk that software-intensive acquisition projects will not consistently meet mission

[27](GAO-01-962, Sept. 14, 2001).

requirements, perform as intended, or be delivered on schedule and within budget.

HUD's seeming inability to reform its information and financial management systems are troubling, not only because they raise concerns about data reliability, but also because they challenge the ability of the various entities and staff within HUD to effectively perform their jobs and communicate within the organization. Inadequate systems could affect HUD's ability to collect accurate and adequate information and effectively report on its program results.

HUD has experienced problems with contractor performance and its oversight of contractors. HUD and its staff face a number of challenges managing the workload associated with contractors. For example, the HOC's reliance on contractors has grown, but the ability of HUD staff to monitor contractors has not kept pace.[28] Some HOC managers told us that it was a challenge for their staff to shift from performing insurance endorsement and property disposition activities to monitoring the performance of contractors. Although HUD's resource study identified contract management as becoming a significant workload issue for field offices during the first phase of the study, our recent work shows that data needed to manage contracting costs and monitor contractor performance are not readily available and cannot be readily extracted from HUD's systems without extensive manual analysis by the HOC staff. The resource estimation study also reports that conflicting work priorities limit time for contractor oversight and monitoring tasks in PIH. According to HUD's Chief Procurement Officer, HUD has not comprehensively assessed the functions that need to be contracted out. HUD uses contractors for a number of reasons, but more importantly it uses them to supplement staff shortages. For example, the GMC uses contractors to assist in its categorical grant review process. However, using contractors to perform these functions creates additional oversight issues that the staff might not be able to manage.

As discussed above, the specialized centers were established to centralize functions and increase program accountability. Yet, implementation difficulties at some centers adversely affect HUD's ability to ensure accountability in its programs. Specifically, the DEC that was created to

[28] *Single Family Housing: Better Strategic Human Capital Management needed at HUD's Homeownership Centers* (GAO-01-590, July 2001).

reduce fraud, waste, and abuse has not taken on the workload expected. To date, it has received few referrals from program offices other than Housing. PIH reported that they have not sent referrals to DEC from the TARCs because of delays in implementing the new Public Housing Assessment System (PHAS). Officials from Community Planning and Development (CPD) told us that they prefer to handle problems with grantees first and send them to the DEC only as a last resort. This lack of referrals affects the operations of the DEC, as well as the program and field offices that continue to manage work that was supposed to have been removed from their responsibility. However, because we have also reported that DEC officials believe it lacks sufficient and experienced staff, these are issues that may need to be resolved before this additional workload could transfer to the DEC.

HUD Implemented Initiatives to Refocus and Retrain Its Staff, but Problems Linger

HUD's efforts to refocus and retrain its staff have achieved some success. The Department's human capital has been an area of concern since we first identified staffing issues as a management deficiency that contributed to HUD's designation as a high-risk area in 1994.[29] HUD's efforts to refocus and retrain its workforce included reducing the number of employees, moving staff to other positions, increasing training for staff, developing an appraisal system, and implementing a process to improve its estimation of resource needs and allocation of staff for its programs. Still, HUD is left with residual morale issues and skill gaps. Furthermore, HUD's human capital problems could be exacerbated by projected high levels of future retirements.

HUD Undertook Numerous Initiatives to Refocus and Retrain Staff as a Part of Its 2020 Plan

As a part of the 2020 Plan, HUD was to refocus and retrain its staff to ensure it had the skills and resources, where needed, using buyouts and staff movements. With the implementation of the 2020 Management Reform Plan, HUD planned to reduce staffing from 10,500 at the end of fiscal year 1996 to 7,500 by fiscal year 2002 through buyouts, attrition, and outplacement services in lieu of reductions in force through the year 2002. HUD reduced staffing to about 9,000 full-time positions by March 1998, when the downsizing effort was terminated. During this time, HUD

[29]In our February 1995 high-risk series, we reported that HUD had an insufficient mix of staff with the proper skills, which hampered the effective monitoring and oversight of HUD's programs and the timely updating of procedures. *High-Risk Series: Department of Housing and Urban Development* (GAO/HR/95-11, Feb. 1995).

initiated various personnel actions to implement the reforms and refocus its staff, including

- notifying about 3,000 staff that their jobs were unaffected by the reforms;
- notifying over 3,100 staff that they would be voluntarily reassigned to what HUD termed as substantially similar positions in the same geographic area. These positions had similar duties, critical elements, and qualifications, and could be performed by employees with little loss in productivity;
- offering buy-outs that resulted in about 1,000 employees leaving the agency; and
- placing over 1,000 staff in new positions under a merit staffing plan.

HUD's expenditures for technical and management training increased from $0.32 million in fiscal year 1997 to $5.9 million in fiscal year 2000. According to HUD officials, the Department has trained staff who were reassigned through expanding its training curriculum and introducing computer-based and satellite training. The majority (74 percent) of the managers who participated in our August 2000 survey of 155 managers were satisfied with the quality of training.

HUD also established a new employee appraisal system for its senior executives and managers in December 1999. The Department reports that its Executive Performance and Accountability Communication System for Senior Executives is designed as a results-oriented and performance-based system, which links directly to the Department's strategic plan and organizational goals and objectives. The Performance Accountability and Communication System for managers and supervisors intends to establish accountability for individual performance by linking performance appraisals to the Department's strategic goals through its Business and Operating Plan process. According to HUD, the system emphasizes two-way communication of performance requirements and results, as well as continuous improvement of individual and organizational performance.

In May 2001, we reported that 79 percent of the HUD managers reported that they were held accountable for results to a great or very great extent.[30] We also reported that HUD managers reported that employees receive

[30] *Managing For Results: Federal Managers' Views on Key Management Issues Vary Widely Across Agencies* (GAO-01-592, May 25, 2001).

positive recognition for helping the agency achieve its strategic goals; managers are held accountable for results; they have outcome and output measures; and performance information is used to set program priorities, allocate resources, coordinate program efforts, and set job expectations. By a statistically significant margin, there were a higher percentage of HUD managers who held these opinions than at the other 25 agencies surveyed in the rest of the federal government, excluding the General Services Administration and the Small Business Administration.

In August 2000, HUD initiated a process to systematically estimate the number of employees it needs, based on its workload and operations. As of July 2001, HUD completed the first two phases of this resource estimation process, which covered about 83 percent of its staff and 12 of its major areas such as: PIH; Administration; Community Planning and Development; Multifamily Housing; Single-Family Housing; and Fair Housing and Equal Opportunity. Each study defines the work for an individual office, estimates the volume of work, calculates the resources required to perform the work, and identifies a framework for workload reporting. In addition, as of May 2001, HUD decided to integrate its strategic workforce planning activities into this process. The resource estimation studies were scheduled for completion in December 2001.

In August 2000, HUD completed a study of its strategy for succession planning, which includes information on retirement eligibility of its staff. This study collected data to help define potential human capital issues associated with retirements over the next 3 years and to assist with HUD's succession planning.

Staffing and Training-Related Problems Remain At HUD

Although HUD's actions were intended to improve overall operations, HUD continues to face problems associated with its efforts to refocus and retrain its staff. These challenges include ensuring adequate levels of staffing, maximizing staff effectiveness, addressing morale issues, compensating for loss of knowledgeable staff due to retirement, and ensuring sufficient training.

HUD's plan to reduce its staff to 7,500 was only partially implemented because the Department did not anticipate how some of these actions would affect its staffing and its operations. Specifically, the plan apparently did not consider the long-term implications for HUD. In a 1998 review of the 2020 plan, we reported that HUD had not based its staffing

target of 7,500 on a systematic workload analysis to determine its needs and questioned whether HUD would have the capacity to carry out its responsibilities once the reforms were in place.[31] HUD terminated the downsizing effort in May 1998. The Department stated that the staffing level would be maintained at the current level (about 9,000) unless the Congress enacted legislation to consolidate HUD's programs and further reductions could be made in the number of troubled multifamily assisted properties and troubled public housing authorities.

HUD has continued to experience some problems from its downsizing efforts. Although HUD implemented hiring limitations and offered early retirement and buyouts to reduce the staff, the Department has not been able to reduce its number of programs and has not yet fully realigned its workload. Consequently, HUD field offices and centers continue to report that the Department lacks adequate staff to fulfill all its responsibilities. Our recent survey of HUD managers indicated that they believe they do not have enough staff and that their workload has increased, rather than decreased as envisioned under the 2020 plan. Also, according to the resource and estimation study, staffing levels in the field often are not based on workload or skill requirements, but rather on the numbers of employees located there when the organization was established. HUD's current ability to respond to some of these concerns is restricted because the Congress has limited HUD's staffing levels until it completes the ongoing development of a process to systematically estimate its resource needs based on its current workload.[32]

HUD has also experienced some morale problems as a result of the downsizing activity. In October 1997, HUD sent letters to each of its employees regarding their job status under the reforms. As reported above, HUD notified about 6,100 staff that they had a position within the organization, but about 3,000 staff were notified that they had not been placed in a position in HUD's new organization. These employees were

[31] *HUD Management: Information on HUD's 2020 Management Reform Plan* (GAO/RCED-98-86, Mar. 20, 1998) and *HUD Management: Information and Issues Concerning HUD's Management Reform Efforts* (GAO/T-RCED-98-185, May 7, 1998).

[32] Additionally, HUD and other federal agencies may face additional challenges under the President's initiative to have agencies restructure their workforces to streamline organizations. As the first phase of this initiative, the Office of Management and Budget required agencies to submit summary information on its workforce analysis by June 29, 2001 and develop a restructuring plan as part of its fiscal year 2003 budget submission and annual performance plan.

generally referred to as "unplaced" staff. The letter stated that these employees would maintain their current jobs if they did not obtain another position within HUD or a new job outside of HUD. The letter also stated that HUD would not implement a reduction in force until 2002, if one were necessary. When HUD made the decision to cease the downsizing there were still about 1,300 of these employees remaining at HUD, who had not yet been able to obtain other positions within the new organizational structure. HUD decided that jobs would be found for those staff without permanent positions and resulted in the majority of them remaining in their same locations. By September 1998, HUD reported that most of the remaining unassigned staff had been placed into permanent positions.

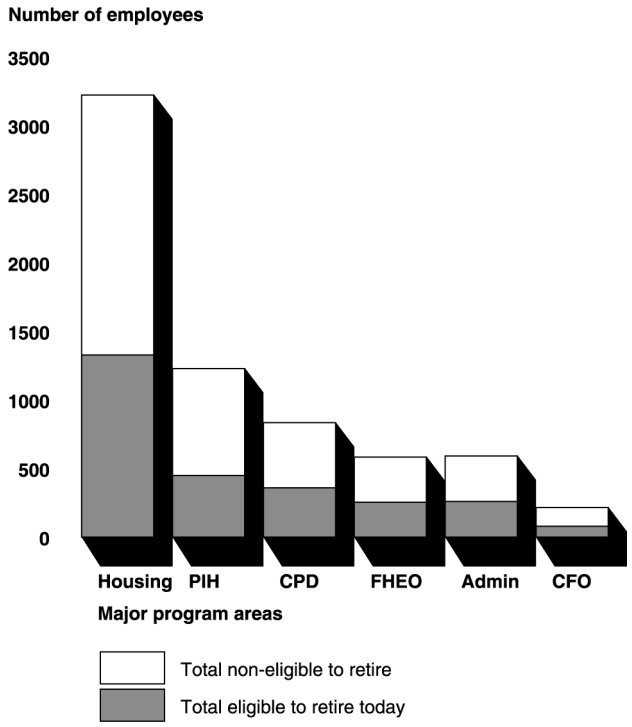
This "unplaced" designation created problems that continue to raise concerns. First, managers told us the designation created a morale issue because those staff were generally stigmatized as poor performers, and the "unplaced" designation implied that they were not needed. This was particularly of concern to those staff who were unable to obtain positions through voluntary reassignment or merit selection. Second, some of these staff were allowed to stay in positions where work no longer exists. Many of the single-family staff located in the field offices were included in this unplaced category. Third, although some of these staff were subsequently moved to positions in other program areas or centers, some managers have reported that they had difficulties learning their new responsibilities. For example, several of the managers with whom we spoke who received unplaced staff indicated that despite the training that the unplaced staff received, they are still not suited for the positions to which they were assigned. For example, in our April 2000 report on HUD's oversight of FHA lenders, center officials maintained that inexperience on the part of staff was one reason why the highest risk lenders were not always reviewed.[33] According to the officials, many of the staff assigned to review lenders came from this pool of unassigned staff and had no background in lender monitoring and credit issues.

As a result of the staffing reductions and hiring limitations undertaken in recent years, HUD's staffing problems could be further affected by the high percentage of staff eligible for retirement in the near future. HUD has not yet developed reliable projections of how many of its eligible employees may actually retire, but according to the Department's study of

[33] *Single-Family Housing: Stronger Oversight of FHA Lenders Could Reduce HUD's Insurance Risk* (GAO/RCED-00-112, Apr. 28, 2000).

the retirement eligibility of its staff, more than 50 percent of seasoned staff from its core business groups are eligible to retire over the next 3 years. Recent estimates by Office of Personnel Management show that about 39 percent of HUD staff will be eligible to retire within the next 5 years, placing HUD among the federal agencies with the highest percentage of retirement-eligible employees. Managers in the field told us they are concerned about the potential retirements and the impact on their offices' ability to do their jobs. Some program offices could lose over 40 percent of their current staff to retirement, if employees choose to leave now. See figure 3 for retirement eligibility in six program areas, covering about 6,000 employees.

Figure 3: HUD Retirement Eligibility for Six Program Areas



Source: Department of Housing and Urban Development, Office of Administration.

Additionally, HUD staff in field offices and centers have specific training needs that are not being met. Our August 2000 telephone survey indicated that although managers reported that training and staff skills have generally improved, they believe that training should be increased.

Managers at the field offices and centers agreed that HUD should increase training in specific areas. Specifically, managers stated that training should be increased in the areas of information systems (75 percent), program regulations and changes (72 percent), technical job skills (71 percent), and interpersonal skills (59 percent). Center managers were more critical of HUD's training than field office managers. We believe that this difference in managers' views on HUD's training is consistent with the fact that the centers are fairly new, and staff might require more training to learn the specialized skills needed to do their jobs. For example, although the Enforcement Center assigned mentors and conducted extensive training, a significant amount of training is still needed, particularly related to servicing and enforcement options for troubled multifamily properties.

Over the years, HUD has increased its training budget and HUD officials noted that the instruction offered by the Training Academy can be described as good; however, most of these officials expressed concerns about the availability of specialized training to meet the specific needs of their centers, offices, or programs. For example, most HUD staff with whom we spoke listed training needs that are specific to the skills needed to perform their jobs, such as financial analysis, marketing, or accounting. However, many of these staff stated that they are unable to attend outside courses to meet these training needs due to a lack of local training and travel funding. In addition, we recently reported similar training concerns for the Enforcement Center. Field managers also have noted that the administration of training is too centralized.

As discussed earlier, perhaps the most significant human capital issue that remains to be addressed is determining the most effective deployment of HUD's workforce and the workload among the centers and field offices. HUD acknowledges that it is still struggling to address this problem and that inefficiencies exist, resulting from their decision to allow staff working in the single-family program to remain in field offices, even though the work was centralized into the HOCs. Additionally, the majority of staff we interviewed at HUD felt that they had not received sufficient, or in some cases any, guidelines and protocols for their interactions with the new centers. A HUD consultant in November 2000 reported that centers' and field offices' work showed that the agreements between them that govern their working relationships have not yet become effective

accountability tools, and, according to some field staff, were being ignored.[34]

Observations

HUD's 1997 Management Reform initiated major changes throughout the Department to try to resolve its management problems and improve HUD's image among its various clients. HUD has made progress on both counts, and HUD generally considers its reorganization complete. However, HUD still faces considerable challenges in ensuring that these management reforms will amount to sustainable improvements in HUD's performance. These challenges cut across HUD's programs and its efforts to consolidate and streamline its operations, improve accountability and control of its programs, and refocus and retrain its staff. Successfully addressing these challenges in the areas of human capital, information and financial systems, and acquisition management will determine whether HUD can sustain the progress of its management reform efforts and make progress toward its goal of becoming a high-performing organization.

Insufficient staffing and inefficient distribution of workload affects the ability of HUD's specialized centers to operate efficiently in the manner originally envisioned under the 2020 Management Reform Plan. It also affects HUD's ability to monitor and ensure accountability of its programs in both the centers and in its program areas. Insufficient staffing increases HUD's need to hire contractors to perform activities and affects its ability to oversee contractors and ensure contractor performance. As a result, human capital is the primary issue for HUD because of its crosscutting implications and its impact on major activities such as monitoring and contracting. HUD has the opportunity to develop a strategic human capital management approach that uses all available tools, including administrative authority, involves employees, and is aligned with HUD's programmatic goals. Based on our work, such an approach could include the following elements:

- Use of the resource estimation and allocation studies and other available data to deploy the workforce appropriately so that a match exists between staffing levels, staff skills and competencies, and the workload staff are asked to manage.

[34] *Strategic Assessment of HUD 2020 Reforms*, The Public Strategies Group, Inc., Nov. 16, 2000.

- Implementation of a skills-assessment program that, most importantly, considers the skills necessary for the successful accomplishment of the agency's mission and programmatic goals. This assessment would identify gaps in skills currently held by the workforce that are necessary for program implementation, prioritize the use of limited training resources, and focus recruiting efforts.
- Development of a comprehensive succession plan for addressing the pending retirement wave expected at the Department, including developing reliable projections of the number of eligible staff who may actually retire. The plan should include specific goals and strategies and incorporate how to transition work responsibilities to incoming staff.
- Creation of a recruitment and retention plan based on programmatic priorities for meeting future staffing needs.

Effective information and financial management systems are crucial to effective and efficient operations and sufficient management control at HUD. However, HUD has not yet achieved the 2020 management reform goal of having state-of-the-art and fully integrated financial management systems. Although we believe it was reasonable to rescope and ultimately terminate the FSI project—given the problems experienced with it—as we have previously recommended, HUD still needs a modern, integrated financial management system. Ineffective information and financial management systems adversely impact HUD's programs and operations and affect its staff's ability to obtain reliable data needed to monitor its programs. Ineffective systems contribute to workload inefficiencies because they create additional work that can take staff away from other essential activities, such as monitoring. In addition, ineffective systems complicate oversight of contractor activities. Since HUD has plans to make substantial investments in new systems over the next few years, it is important that the Department continue to improve its software acquisition processes and have a high level of management attention on its information technology investments.

HUD has substantially increased its contracting in the last few years and this trend is generally expected to continue. The Department, along with other federal agencies, has experienced problems in effectively overseeing its contractors. The acquisition management challenges HUD will likely face include

- deciding what work is best done by HUD employees and what is most efficiently contracted out, rather than relying on contracting to resolve resource shortfalls;

- identifying emerging staff workload needs to manage decisions to contract work; and
- ensuring that staff are adequately trained in responsibilities related to contract management and oversight.

Under the 2020 Management Reform Plan, HUD made progress in addressing some of its significant problems and initiated major changes throughout the Department, but HUD still faces considerable challenges in ensuring that these management reforms will amount to sustainable improvements in HUD's programs and performance. As HUD's new leadership moves forward and is making decisions about organizational structure and programs, it has the opportunity to assess the lessons learned from the last few years and involve its employees, clients, and the Congress in establishing a shared vision for identifying and resolving the remaining challenges. Once consensus is achieved on the challenges and strategies, resources can be more effectively targeted toward resolving those issues deemed to have the highest priorities.

Objectives, Scope, and Methodology

To determine the status of the reforms, including progress made and problems encountered, we reviewed HUD's 2020 Management Reform Plan, HUD's internal status reports on the progress and accomplishments of the reform initiatives, HUD's OIG reports on the reforms, and external assessments of the reforms by HUD consultants and GAO. In addition, we interviewed HUD management officials in the following offices: Community Planning and Development, Fair Housing and Equal Opportunity, Field Policy and Management, Housing, PIH, Administration, Training Academy, Departmental Operation and Coordination, Chief Procurement Officer, CFO, Government National Mortgage Association, CIO, Office of Troubled Agency Recovery, and Policy Development and Review. We also interviewed managers at most of the centers created under the management reforms, these include the REAC, DEC, FMC, and the GMC. Finally, we interviewed 22 staff and 22 managers (some of which also participated in our August 2000 survey) from field offices within the PIH, Office of Housing, Community Planning and Development, and Fair Housing and Equal Opportunity to follow up on their experiences with the management reform initiatives, since we last talked with them in 1998.

To address HUD's human capital issues specifically related to the 2020 reforms, we reviewed our reports related to these issues, as well as HUD internal and external reports on human capital related issues. We also asked questions related to human capital issues, such as staffing, training,

and workload, to the managers and staff we interviewed throughout the course of our assignment.

We conducted this review from February 2001 to September 2001. We performed our audit work in accordance with generally accepted government auditing standards.

Agency Comments

In commenting on a draft of this report, HUD agreed that the report accurately depicts the status of HUD's progress and problems, at varying points, and that it forms a baseline against which continuing improvements can be measured. We made technical corrections and updates to the report based on HUD's comments, where appropriate. The complete text of HUD's comments and our responses are included in appendix III.

As arranged with your office, we will also send copies of this report to the Secretary, Department of Housing and Urban Development. We will make copies available to others on request.

If you or your staff have any questions about this report, please call me at (202) 512-2834. Key contacts and major contributors to this report are listed in appendix IV.

Sincerely yours,

Stanley J. Czerwinski
Director, Physical Infrastructure Issues

Appendix I: HUD's Management Reforms in the 2020 Management Reform Plan

Reform and description of problem and benefits to be achieved	Specific changes per 2020 Plan
Reform 1: Reorganize by function rather than program 'cylinders.' Where needed, consolidate and privatize.	**Organizational changes**
According to the plan, Housing and Urban Development (HUD) was formed by combining several existing departments (the Office of Housing, the Public Housing Administration (PHA), the Urban Renewal Administration, and the Community Facilities Administration); but these were never fully integrated. Consequently, HUD had never achieved operational efficiency, mission clarity or organizational unit. The "stovepipes" of HUD's program offices, the Office of Housing (Housing), Public and Indian Housing (PIH), Fair Housing and Equal Opportunity (FHEO), and Community Planning and Development (CPD), operated essentially independently. They often duplicated each others' efforts and at times worked at cross purposes, making it difficult for communities to effectively access HUD's services. To eliminate the duplications and in anticipation of more downsizing, the plan reorganized HUD by function. Expected benefits included stronger management controls; improved program accountability; uniform standards for early detection of fraud, waste, and abuse; more expertise among staff; centralizing specialized work allowing field staff to focus on monitoring; greater flexibility; and greater efficiency.	Create the following centers: • Real Estate Assessment Center (REAC): for reviewing and evaluating physical inspections and financial reporting. • Section 8 Financial Management Center (FMC) for integrated financial management of all Section 8 payment processing for Housing and PIH. • Housing: Single-Family Homeownership Centers (HOC) to consolidate all single-family operations, Multifamily Centers to carry out asset management and asset development functions. • PIH: Troubled Agency Recovery Centers (TARC) to deal with troubled public housing agencies; Special Applications Center for consolidating nonfunded applications and processes for specialized programs; PIH Grants Center (known as the Grants Management Center (GMC) for competitive grants management and management of the public housing operating fund and capital fund. • Chief Financial Officer (CFO): Accounting Center to consolidate program and administrative accounting operations from 10 accounting divisions. • Office of Administration: Administrative Service Centers and Employee Service Center to eliminate redundant administrative functions in human resources, procurement, and space planning as well as payroll, benefits, and counseling services, respectively. • Redesign contract procurement process to improve operations and oversight. • Consolidate routine cross-operational processing into centralized back office processing centers, or hubs, in the field. • Consolidate program administrative functions into the Office of Administration. • Establish Economic Development and Empowerment Service, aligning various job skills and other programs from CPD, PIH, and Housing. • Outsource legal and investigative services when appropriate. • Outsource technical assistance to grantees when appropriate. • Privatize physical building inspections, financial audits, technical assistance, and real estate assessments. • Consolidate 10 field accounting divisions into 1 accounting center within the Office of the CFO. • Consolidate operations in 51 field offices into 17 Multifamily Centers within Multifamily Housing. • Consolidate financial management and budget functions in CFO.

Reform and description of problem and benefits to be achieved	Specific changes per 2020 Plan
	Program changes
	• Privatize HOPE VI construction management and development process as appropriate. (L) • Consolidate six homeless assistance programs. (L) • Merge Section 8 certificate and voucher programs to streamline HUD regulations and oversight. (L) • Extend Federal Housing Administration (FHA) note sale authority permanently. (L) • Reform FHA single family property disposition to reduce staff burden, value lost while in inventory, and exposure to risk. (L)
Reform 2: Modernize and integrate HUD's outdated financial management systems with an efficient, state-of-the-art system.	**Organizational changes**
The plan stated that the single most glaring deficiency of the Department is the financial management systems. At the time, every program cylinder operated its own financial systems, and there were 89 different systems. Compounding the difficulties, many of the systems could not talk to each other. The plan was that HUD would have a common, consolidated financial management information system fully implemented by mid-1999. Expected benefits included greater financial management accountability and improved communication between HUD, its grantees and communities across the country.	• Integrate HUD's fragmented financial management system, repairing or replacing HUD's 89 separate financial management and information systems. • Use advanced mapping software system, Communities 2020, to show communities the impact of HUD funding and activity in their area and enable them to plan, track, and measure performance. • Implement HUD's new Management Integrity Plan.
Reform 3: Create an Enforcement Authority with one objective: to restore the public trust.	**Organizational changes**
The plan stated that the greatest breach of the public trust at HUD is the waste, fraud, and abuse in HUD's existing portfolio of millions of housing units. Each of HUD's program offices – PIH, Housing, FHEO and CPD – operated independent enforcement functions, with different standards and procedures. HUD would combine enforcement actions for PIH, CPD, FHEO (noncivil rights compliance), and Housing into one authority. The Enforcement Authority was to be responsible for taking legal action against all PHAs that received a failing score on their annual assessment. The Enforcement Authority would also move against all Housing properties that fail physical and financial audit inspections, cleaning up the historical backlog of 5,000-plus troubled Office of Housing properties. The Enforcement Authority was to also crack down on all CPD and FHEO grantees who failed audit standards or who engaged in waste, fraud, and abuse. The Enforcement Authority would consolidate existing employees and contract with outside investigators, auditors, engineers, and attorneys where necessary and appropriate. This division would also serve as liaison with the Inspector General, and coordinate its work with the Federal Bureau of Investigation, Department of Justice, and the Internal Revenue Service. Expected benefits included streamlining enforcement activity and dedicating resources to deal with troubled properties.	• Consolidate existing organizations and employees: contract where appropriate with outside investigators, auditors, and attorneys. • Monitor low-performing PHAs, properties failing physical and financial audit inspections, and CPD/FHEO grantees failing program compliance. • Create a business-like entity to clean up the backlog of over 5,000 troubled multifamily properties.
	Program changes
	• Streamline and privatize process for Housing's pursuit of negligent owners. (L) • Reform bankruptcy laws to prevent owners from using them as a refuge from enforcement actions. (L)

Reform and description of problem and benefits to be achieved	Specific changes per 2020 Plan
Reform 4: Refocus and retrain HUD's workforce to carry out our revitalized mission.	**Organizational changes**
The plan states that HUD's mission was never sharply defined, and HUD has changed its emphasis to suit the times. For example, after the HUD scandals of the 1980's all emphasis was on monitoring and enforcing regulations. At other times, the emphasis was to help grantees do whatever they wanted. HUD will refocus its mission and then retrain the workforce to serve that mission. No matter what area an employee works in, his or her primary mission will be to either empower communities and people or to enforce the public trust. In the past, employees were too often charged to do both at the same time. The plan stated that these expectations were inconsistent and often contradictory. The plan recognized that monitoring and helping grantees are distinct functions and must be performed by different individuals–and in different divisions–within the organization. HUD created Community Resource Representatives (also known as Community Builders), who were to empower the community by bringing in technical expertise, and knowledge of finance programs and economic development. They were to be HUD's "front door," helping customers gain access to the whole range of HUD services. The Public Trust Officers were to work in the field offices as the front line for monitoring and would refer significant problem cases for enforcement to the new Enforcement Authority. HUD would also continue downsizing by consolidating and streamlining operations. Expected benefits included improving access of communities to HUD services; increasing monitoring; reducing fraud, waste, and abuse; and avoiding reductions in force.	• Select and train staff as Community Resource Representatives, also known as Community Builders, and Public Trust Officers for all field offices. • Downsize HUD staff form 10,500 to 7,500 using skills and resources where they are needed most. • Develop a road map for downsizing HUD employees, including a buyout strategy and options for career transitions. • Streamline and consolidate operations and reassign staff to high priority work.
Reform 5: Establish new performance-based systems for HUD programs, operations, and employees.	**Organizational changes**
The plan stated that HUD uses an employee evaluation system that has some, but not significant, connection to program and agency long-term goals. HUD planned to explore changes to HUD's system and implement effective and meaningful Government Performance and Results Act (GPRA) performance measures designed to hold HUD staff and grantees accountable for results. HUD also planned to push for changes in programs to emphasize performance, much of which would require legislation. For example, to change inflexible, labor-intensive competitive grants to performance based formula grants. The new HUD would emphasize product over process, performance over paperwork. Expected benefits included uniform standards for measuring performance, productivity, and accountability; increased ability to measure and reward performance for employees and contractors; reduced burden on field staff for monitoring and oversight; and reduced costs for HUD's assisted housing.	• Create meaningful GPRA performance measures that hold HUD staff and grantees accountable for results. **Program changes** • Convert inflexible, labor-intensive competitive grant programs to performance-based grant programs, including: Tenant Opportunities, Economic Development/Support Services, Public Housing Drug Elimination, Competitive PHA Capital Funds; and six homeless programs. (L) • Deregulate high-performing PHAs and smaller PHAs by mandating fewer reporting requirements (L) • Create a Public Housing Authority Performance Evaluation Board. (L) • Mandate judicial receivership for PHAs on the troubled list for more than 1 year. (L) • Reduce excessive rent subsidies to market levels on assisted housing. (L)

Reform and description of problem and benefits to be achieved	Specific changes per 2020 Plan
Reform 6: Replace HUD's top-down bureaucracy with a new customer-friendly structure.	**Organizational changes**
Consistent with its new mission, the plan stated HUD must redesign its structure. The top-down headquarters/field structure is outdated and outmoded and HUD had not kept pace with similar reorganizations done in the private sector. Although HUD would retain all 81 field offices, it would be organized by function instead of by program. The newly consolidated operations would be located in processing centers while HUD's public and grantee outreach would be conducted in community friendly locations. Expected benefits included improving customer service; improving working relationships with customers; better compliance with the Chief Financial Officers (CFO) Act; and improving strategic planning, performance and measurement of HUD's operations.	• Create neighborhood "store-front" service centers in communities. • Offer single point of service to customers through Community Resource Representatives and centralize back-office centers. • Establish a new management planning strategy. • Streamline headquarters and redeploy staff to field.

Legend: L = legislation required, per the Management Reform Plan.

Source: HUD 2020 Management Reform Plan.

Appendix II: Status of Major HUD Reforms as of August 2001

Reform 1: Reorganize by function rather than strictly by program cylinders. Consolidate and privatize as needed.

Component of Reform	Status of reform/accomplishments	What remains to be done
Organizational changes	We recognized that the reorganization is substantially complete and some improvements have resulted. HUD's OIG has also reported that the major 2020 organizational changes are complete.	While we have recognized that the reorganization has resulted in some improvements, we have continued to identify issues related to the various reforms, as noted below.
Create a Real Estate Assessment Center (REAC) to review physical inspections and financial reports.	The REAC is fully operational and completed the first physical and financial inspections of HUD's multifamily and public housing inventory, which found that over 80 percent of HUD's inventory was in good physical condition. REAC's responsibilities have expanded to include data collection and analysis of various HUD program activities. REAC manages a total of nine assessment systems, including reviewing single family appraisals, conducting tenant income matching with Internal Revenue Service and Social Security Administration data, and lender monitoring. HUD reports that REAC processes information related to over 27,000 property inspections, 33,000 financial statements, 4.5 million tenant verifications and about one million single-family appraisals.	The physical inspections done by REAC were contracted out, and we have raised concerns about the quality of those inspections as well as about HUD's followup of problems identified during those inspections. We recognize that HUD is taking steps to address these issues and reports, but it will be important for HUD to ensure that the new procedures are being followed by the field offices and to perform assessments as needed to verify that deficiencies have actually been corrected.
Create a Section 8 Financial Management Center (FMC) for Housing and PIH.	The FMC, located in Kansas City, Missouri, is operational and has assumed responsibility for processing a total of about 10,000 tenant-based and project-based Section 8 contracts for PIH and Housing, respectively. Of these, about 4,200 are Housing contracts that were already under contract with third-party contract administrators.	The FMC has not assumed the responsibility for financial management of all Section 8 contracts as planned. As of March 2001, Housing decided not to send about 16,000 section 8 contracts to the FMC, generally due to reported difficulties in converting Housing's section 8 contracts to the system used by the Financial Management Center (FMC). HUD has also experienced delays in getting the rest of the project-based Section 8 contracts to the performance-based contract administrators. About 9,100 Section 8 contracts are being managed by the new contractors, and about another 6,500 are not yet under contract and are managed by Housing field staff. For those contracts managed by the field staff, the FMC reviews the rental assistance vouchers for accuracy.
Establish three Single Family HOCs and Multifamily Centers (consolidate operations in 51 field offices into 17 MF centers).	HUD consolidated single-family housing operations from 81 field offices into the 4 centers, which are fully operational and have resulted in faster processing times. Eighteen multifamily hubs and 33 program centers were created. HUD developed a universal position description for its multifamily property managers to increase its flexibility to manage its multifamily properties.	We have reported that HUD continues to experience inefficiencies from deciding not to complete planned relocations of staff from the field offices to the new centers. HUD has used contractors to fill in the gaps in skills or expertise or to compensate for insufficient staff. HUD has also experienced difficulties in monitoring its lenders and appraisers.
In PIH, create two PIH TARCs, a Special Application Center and a GMC.	HUD established 2 TARCs in Memphis and Cleveland that are responsible for about 50 troubled housing authorities. HUD established the GMC to consolidate the	The OIG, in September 1999, reported that the TARCs were managing 52 troubled PHAs with 22,112 units in their inventory. This is much less than the 575 PHAs they were expected to handle. HUD has encountered difficulties in implementing

Reform 1: Reorganize by function rather than strictly by program cylinders. Consolidate and privatize as needed.		
Component of Reform	**Status of reform/accomplishments**	**What remains to be done**
	processing, reviewing, and awarding of categorical and formula grants for PIH. To address the issue of insufficient staff, the GMC hired contractors to process its categorical grants. Between 1998 and 2000, GMC processed approximately 26,700 grant applications and awarded 24,000 grants in excess of $16.3 billion to public housing authorities and other grantees. HUD established the SAC to centralize the review, process, and approve nonfunded, noncompetitive applications related to demolition/disposition, designated housing, eminent domain, homeownership, and Section 202 Mandatory Conversion. In addition, it provides technical assistance and training to HUD's public housing hubs and program centers, as well as to other external clients such as public housing authorities.	its new Public Housing Assessment System (PHAS) that has delayed the TARCs operating as planned. In an August 2001 review, the OIG found the situation generally unchanged. HUD reports that once the PHAS scoring system is fully implemented and/or the Section 8 Management Assessment Program begins to designate troubled Section 8 housing authorities, additional staff will need to be brought to the TARCs.
In CFO, create a centralized accounting center (consolidate 10 field accounting divisions into 1 accounting center in the CFO).	HUD created a centralized accounting center in Ft. Worth, Texas, and reports that all major accounting work has been consolidated into the center and no outstationed staff remain in other field offices.	The staff from the CFO told us that two processes pertaining to older programs for which HUD retains oversight responsibility remain in D.C., but they will eventually move to the center.
Redesign contract procurement process.	A NAPA study suggested changes and HUD hired a chief procurement officer. HUD has also established a contract management review board, increased the use of accelerated contracting process, and increased the use of performance based service contracts. HUD has also added Government Technical Representative (GTR) and Government Technical Monitor (GTM) and provided specialized training to them. Since the 2020 reforms, HUD contracting has increased from about $250 million in fiscal year 1997 to over $1 billion in fiscal year 2000.	We have continued to find problems in HUD's ability to effectively manage and monitor its contracts, which indicate that additional work needs to be done in this area. For example, HUD has experienced problems with adequately monitoring the performance of its contractors who manage and market the single-family homes HUD acquires following foreclosures and ensuring contract inspections of multifamily properties were done consistently with HUD's requirements. HUD has not been able to get all the Section 8 contract administrators on board, although they were expected to have been awarded in fiscal year 2000. In March 2000, the HUD OIG stated that despite the contracting reforms, HUD had not substantially improved its contracting attitudes and practices.
Establish Economic Development and Empowerment Service, aligning various job skills and other programs from CPD, PIH, and Housing.	This service was not created.	Not applicable.

Reform 2: Modernize and integrate HUD's outdated financial management systems with an efficient, state of the art system.

Component of Reform	Status of reform/accomplishments	What remains to be done
Organizational changes.	HUD reported to us that it considers this goal to have been met. HUD substantially rescoped its financial systems integration (FSI) project to focus on achieving a compliant general ledger and subsequently completed the project in November 2000.	Both we and the OIG report that HUD faces significant systems limitations, such that substantial work remains for HUD to have a common, consolidated financial management information system that supports program management decision-making and financial management.
Integrate HUD's fragmented financial management system, repairing or replacing HUD's 89 separate financial management and information systems.	As stated above, HUD rescoped its systems integration project to focus on achieving a general ledger that is compliant with federal financial standards and completed the project in November 2000. HUD has developed a new vision to replace its systems integration strategy and has purchased commercial off-the-shelf software to address its financial systems needs and develop a systems architecture within which to manage future development. HUD established an Office of Chief Information Officer (CIO), and centralized information technology development activity within that office.	HUD has continued to experience difficulties in trying to improve its systems. Both we and the HUD OIG continue to report that HUD's information and financial management systems are not yet complete and reliable. In our January 2001 report, we reported that HUD needs to deploy a reliable financial management system that meets its program and financial management needs and complies with federal requirements. In February 2001, the HUD OIG reported that significant internal control weaknesses exist in HUD's financial management system, HUDCAPS, such as maintenance practices remain weak, and controls over data integrity and security access were inadequate. In March 2001, the OIG noted that HUD continues to rely on extensive ad hoc analyses and special projects to develop account balances and necessary disclosures to complete its financial statements. In September 2001, we reported that HUD's systems development and acquisition processes are underdeveloped and are not repeatable on a project-by-project basis.
Implement HUD's new Management Integrity Plan.	According to the CFO, this was not a single plan but a series of activities designed to improve HUD's risk management and oversight of its programs. These activities included revision of HUD's Management Control Handbook and related training; developing risk-based monitoring tools, guidance and training; including Risk Management staff in HUD's quality management reviews, and initiating a "control structure design project" to document the control structure of HUD's programs. HUD has also initiated a Compliance and Monitoring Initiative to focus staff attention on monitoring training and initiated Quality Management Reviews of field offices.	Our work and that of the OIG indicate that problems remain in HUD's ability to monitor its programs, due in large part to resources issues and/or lack of guidance to field staff. HUD reports that it needs to complete its Control Structure Design Projects to support further risk analysis and management decisions on other front-end risk reviews, special risk reviews, and program or operation changes.

Reform 3: Create an Enforcement Authority with one objective—to restore public trust.

Component of reform	Status of reform/accomplishments	What remains to be done
Organizational changes		
Consolidate existing organization and employees; contract where appropriate with outside investigators, auditors, and attorneys.	The Enforcement Center has been operational for about 3 years, with satellite offices in five cities. HUD reports that during fiscal year 2000, DEC actions resulted in savings of $29.7 million to the federal government through recoveries obtained, savings in program funds, and avoidance of insurance claims. Monetary recoveries from judgments, assessments of penalties, and settlements were $19.1 million; enforcement actions resulted in prepayment of owners of $29 million; and loan indemnifications assessed were $10.6 million.	According to a March 2000 IG report, the DEC's accomplishments to date have been less than dramatic. Nearly all focus has been with multifamily program enforcement within housing. The DEC has not received referrals from any other program offices. Additionally, the report states that unless HUD is willing to provide the DEC with the necessary authority and resources to make prompt decisions when pursuing enforcement actions, the DEC will not achieve its full potential of aggressively pursuing enforcement actions against noncomplying entities.
Monitor low performing PHAs, properties failing physical and financial audit inspections and CPD/FHEO grantees failing program compliance.	The DEC has primarily focused on enforcement actions for multifamily housing.	Issues remain related to the staffing and training of the Enforcement Center staff, as well its interaction the other program areas. HUD reports that the program offices are developing processes and guidance to improve monitoring of public housing authorities and grantees.
Create a business-like entity to clean up the backlog of over 5,000 troubled multifamily properties.	The DEC has received 3,149 referrals on properties and has completed about 60 percent, or 1875. HUD reports it has reduced processing time on cases from an average of about a year to an average of about 100 days.	The DEC has a business and operating plan goals to reduce the backlog by 80 percent during fiscal year 2001 and avoid future backlogs by completing 75 percent of all cases within 180 days.

Reform 4: Refocus and retrain HUD's workforce to carry out our revitalized mission.

Component of reform	Status of reform/accomplishments	What remains to be done
Organizational changes		
Select and train staff for community and public trust functions.	HUD selected and trained permanent and temporary Community Builders for outreach functions. Public Trust Officers were appointed during fiscal year 2000 at higher grades in the field offices. These Senior Public Trust Officers also received specialized training. HUD also developed and provided compliance and monitoring training, which was to help the public trust officers with their responsibilities.	The Community Builder position was a source of controversy since inception, particularly the temporary fellowship positions. We stated that HUD had no analysis to show the need for Community Builders. The HUD IG has said that the community builders should be discontinued and that HUD would probably achieve more success with the addition of program staff and better training of existing staff. Congress eliminated the temporary Community Builder program as of September 2000, and the new Secretary has said the permanent Community Builder positions would be redefined.
Downsize HUD staff from 10,500 to 7,500 and	As of March 1998, further downsizing of HUD was halted and staff who were previously not assigned	HUD has continued to experience difficulties associated with staffing and workload issues. The

Reform 4: Refocus and retrain HUD's workforce to carry out our revitalized mission.

Component of reform	Status of reform/accomplishments	What remains to be done
refocus staff based on workload demands.	permanent positions were assigned to permanent positions by September 1998. HUD created a number of new positions, such as senior project managers, contract administrator oversight monitors, Public Trust Officers, and Community Builders to focus employees on HUD's monitoring and outreach activities. HUD has a study of its resources estimation and allocation process under way that is expected to be done by December 2001.	decisions to leave staff in their current locations, even where the work was centralized, has resulted in inefficiencies, particularly in single family housing. A November 2000 report by a consultant reported, among other things, that HUD has an opportunity to strengthen and sustain the reform by addressing the concerns that remain among the employees. Our surveys of HUD staff and managers indicate that workload issues remain. The resources study needs to be completed and the recommendations considered.
Develop a road map for downsizing HUD employees, including a buyout strategy and options for career transitions.	HUD offered buyouts, voluntary reassignments, early outs and designated about 3,000 staff as unplaced. When the downsizing was terminated, the remaining unplaced staff were placed in permanent positions.	Since HUD stopped downsizing, no further work remains to be done on this specific issue as stated in the plan.
Streamline and consolidate operations and reassign staff to high priority work.	HUD has established the new centers and back office processing centers as discussed above.	We have continued to report HUD's human capital issues as an area that needs additional attention to ensure that HUD has the right number of staff with the proper skills. The OIG has also raised concerns about the complexity of the reorganization. The OIG remains concerned that staffing requirements, a critical element of the reforms, are still under development.

Reform 5: Establish new performance based systems for HUD programs, operations, and employees.

Component of reform	Status of reform/accomplishments	What remains to be done
Organizational changes		
Create Government Performance Results Act (GPRA) performance measures that hold HUD staff and grantees accountable for results.	HUD completed its strategic plan, fiscal year 1999, 2000, and 2001, and 2002 annual performance plans, and fiscal year 1999 and 2000 annual performance reports. The plans and reports have improved each year because HUD incorporates the suggestions from NAPA, GAO and others. HUD also implemented a management plan process that seeks to collect data from the field office and program level to roll up for the GPRA performance measurement process.	We have reported that HUD needs to do additional work in developing goals and measures that make it possible to clearly determine the contribution of HUD's programs to the outcomes in HUD's strategic plan. We have reported that HUD also needs to continue improving its resource information, and data reliability and completeness. The HUD OIG, in a review of internal controls over performance data used for 1999, identified problems with the reliability of HUD's data for selected performance indicators. In a November 2000 report, a HUD consultant noted that many of the performance measures in HUD's management plan are still heavily focused on outputs and activities rather than outcomes for customers. Also, there is a lack of both customer/partner

Reform 5: Establish new performance based systems for HUD programs, operations, and employees.

Component of reform	Status of reform/accomplishments	What remains to be done
		satisfaction data and information on the timeliness of process which the consultant said was of particular value to HUD customers.

Reform 6: Replace HUD's top down bureaucracy with a new customer friendly structure.

Component of reform	Status of reform/accomplishments	What remains to be done
Create neighborhood "store-front" service centers in communities.	As of July 2001, HUD had established 16 storefront centers since 1998. Each storefront has a HUD kiosk located just outside of its doors to provide information on HUD programs 24 hours a day.	In a March 2000 report on store front operations, the OIG reported that HUD opened storefront offices to serve as national models for more responsive government. However, their impact is minimal and overall benefits to HUD customers cannot be measured. Additionally, the OIG stated funding for storefront operations could be better spent on improved oversight and monitoring of other HUD programs and that the public has less costly resources available to learn of HUD programs.
Offer single point of service to customers through Community Resource Representatives and centralize back-office centers.	HUD created the positions, known as Community Builders, and created back-office centers, such as the Accounting, Administrative Service, and GMCs.	The Community Builder role is under consideration for additional changes.
Establish a new management planning strategy.	In 1998, HUD implemented its Business and Operating Plan process that ties program office and field level activities to HUD's strategic planning.	We have raised concerns about whether the goals and measures currently used clearly reflect HUD's contributions to the outcomes.
Streamline headquarters and redeploy staff to field.	HUD reports that in March 1998, it implemented a voluntary relocation program and that at least 300 staff were reassigned to critical field office vacancies.	Staffing and workload issues have yet to be resolved. HUD's resource estimation study is scheduled to be completed in December 2001.

Source: GAO's analysis.

Appendix III: Comments From the Department of Housing and Urban Development

U. S. Department of Housing and Urban Development
Washington, D.C. 20410-0003

OFFICE OF DEPARTMENTAL OPERATIONS
AND COORDINATION

October 5, 2001

Mr. Stanley J. Czerwinski, Director
Physical Infrastructure Issues
U.S. General Accounting Office
441 G ST NW
Washington, DC 20548

Dear Mr. Czerwinski:

Thank you for the opportunity to comment on the GAO's draft report on "HUD Management - Progress Made on Management Reforms but Challenges Remain." The Congress requested the GAO to provide information on HUD's progress and the problems it encountered in implementing the prior administration's 2020 Management Reform Plan. The GAO also provides observations on crosscutting areas that impact HUD's efforts to become a high performing agency.

We generally find that the draft report accurately depicts the status of HUD's progress and problems, at varying points in time. In many respects, this report forms the baseline against which the continuing improvement efforts of the Department will be measured. Therefore, we are providing comments that address any major management challenges not fully reflected in the draft report, and any needed corrections or updates to the status of plans and actions reflected in the draft report. Our comments are provided in the enclosed matrix. (Please note, our reviewers found there was a difference in the page numbering between the electronic and hard copy versions of the draft. The page numbers in the matrix refer to the electronic version.)

These periodic assessments of progress and problems by the GAO are important in keeping HUD management, the Office of Management and Budget and the Congress appropriately focused on corrective actions and resource needs to improve HUD's program delivery, in furtherance of our critically needed housing and community development mission.

Should you or your staff have any questions on our comments, please contact me on (202) 708-2806.

Sincerely,

Frank L. Davis
Director

Enclosure

GAO's Comments

The following are our responses to specific areas in the Department of Housing and Urban Development's letter dated October 5, 2001.

1. We did not, as HUD suggested, modify or delete our discussion of SEI's Software Acquisition Capability Maturity Model[SM]—specifically our evaluation of HUD's software acquisition capability. High quality software is essential for HUD's information systems to provide reliable information and support to the Department's many programs. It is therefore essential that HUD address its software acquisition weaknesses to move forward with and help support its reform efforts. In our September 2001 report, we concluded that HUD's software acquisition capability was immature because HUD did not fully satisfy the requirements for any of the "repeatable" key process areas we reviewed. We continue to believe, as HUD stated in its letter, that our review and related report provide a useful tool for the Department to assess its status in this area, because we discuss HUD's strengths, weaknesses, or other observations on 310 key software acquisition practices.

2. We revised the draft to reflect the purpose of the January 2000 contract for both TARCs, as stated in HUD's comments.

3. HUD expressed concern that the issues related to the quality of REAC inspections and correcting deficiencies have been resolved. After we have received and reviewed the report for the April 2001 through the September 30, 2001, time period, we will be in a better position to assess HUD's contention that "issues of quality of inspections are largely past." We agree that the establishment of the HUD REAC has been a positive step. We also agree with HUD's assertions that the concept of Uniform Physical Inspection Standards is sound and a standard automated review of financial statements provides HUD with a level of information that is unattainable manually. Furthermore, we recognize that in response to recommendations contained in our July 2000 report, HUD has taken a number of steps to strengthen the procedures that it uses to assess the reliability of the physical inspections that REAC performs. This includes agreeing with our recommendation that HUD assess the reliability of its inspections on a periodic basis and report on the results of these assessments.

   We also recognize that HUD has recently taken actions to address recommendations in our June 2001 report on the processes that its Office of Multifamily Housing uses to ensure that deficiencies REAC identifies during physical inspections of multifamily properties are

corrected. In particular, HUD has strengthened the procedures that HUD field offices are to follow to ensure that deficiencies are corrected by property owners. This is a positive step. Nevertheless, it will be important for HUD to ensure that the new procedures are being followed by the field offices and to perform assessments as needed to verify that deficiencies have actually been corrected.

Appendix IV: GAO Contacts and Staff Acknowledgments

GAO Contacts

Stanley J. Czerwinski, (202) 512-2834
Steve Cohen, (202) 512-4864

Acknowledgements

Jeannie B. Davis, David G. Gill, Angelia V. Kelly, Phillip W. McIntyre, Ellen V. Rubin, Virginia K. Tierney

Related GAO Products

HUD Information Systems: Immature Software Acquisition Capability Increases Project Risks (GAO-01-962, Sept. 14, 2001).

Single-Family Housing: Better Strategic Human Capital Management Needed at HUD's Homeownership Centers (GAO-01-590, July 26, 2001).

Department of Housing and Urban Development: Status of Achieving Key Outcomes and Addressing Major Management Challenges (GAO-01-833, July 6, 2001).

HUD Multifamily Housing: Improved Follow-up Needed to Ensure that Physical Problems Are Corrected (GAO-01-668, June 21, 2001).

Major Management Challenges and Program Risks: Department of Housing and Urban Development (GAO-01-248, Jan. 2001).

Public Housing: HUD Needs Better Information on Housing Agencies' Management Performance (GAO-01-94, Nov. 9, 2000).

HUD Management: Status of Actions to Resolve Serious Internal Control Weaknesses (GAO-01-103, Oct. 16, 2000).

HUD Housing Portfolios: HUD has Strengthened Physical Inspections but Needs to Resolve Concerns About Their Reliability (GAO/RCED-00-168, July 25, 2000).

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