In 1990, the General Accounting Office began a special effort to review and report on the federal program areas we considered high risk because they were especially vulnerable to waste, fraud, abuse, and mismanagement. This effort, which has been strongly supported by the Senate Committee on Governmental Affairs and the House Committee on Government Reform and Oversight, brought much needed focus to problems that were costing the government billions of dollars.

In December 1992, we issued a series of reports on the fundamental causes of problems in designated high-risk areas. We are updating the status of our high-risk program in this second series. Our Overview report (GAO/HR-95-1) discusses progress made in many areas, stresses the need for further action to address remaining critical problems, and introduces newly designated high-risk areas. This second series also includes a Quick Reference Guide (GAO/HR-95-2) that covers all 18 high-risk areas we have tracked over the past few years, and separate reports that detail continuing significant problems and resolution actions needed in 10 areas.

This report discusses the fundamental deficiencies that led us to designate the Department of Housing and Urban Development (HUD) as a high-risk area in January 1994,
the actions HUD has taken or initiated to correct them, and further actions that are needed. HUD’s Secretary and top management team have given high priority to correcting these deficiencies. They, and other HUD managers and staff, committed substantial effort during 1994 to formulating and planning significant changes in the way the agency is managed. We applaud HUD’s efforts but note that the mammoth task of effectively implementing these plans still lies ahead. Continued focus, commitment, and consistent follow-up by HUD’s leadership over the coming years will be needed to sustain the enthusiasm and momentum generated thus far and to successfully transform HUD into a well-managed federal agency.

Copies of this report series are being sent to the President, the Republican and Democratic leadership of the Congress, congressional committee chairs and ranking minority members, all other members of the Congress, the Director of the Office of Management and Budget, and the Secretary of Housing and Urban Development.

Charles A. Bowsher
Comptroller General
of the United States
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Overview

The Department of Housing and Urban Development (HUD) is one of the nation's largest financial institutions, insuring some $400 billion in loans, and guaranteeing more than $400 billion in outstanding securities for single-family and multifamily housing for a large segment of Americans. It also spends about $25 billion each year furthering the social objectives of providing affordable housing, rent subsidies, and other services to low- and moderate-income persons (including the homeless) and of helping finance local community development activities.

The Problem

Four long-standing departmentwide deficiencies led to our designation of HUD as a high-risk area. These deficiencies were weak internal controls, an ineffective organizational structure, an insufficient mix of staff with the proper skills, and inadequate information and financial management systems.

Internal control weaknesses, such as a lack of necessary data and management processes, were a major factor leading to the incidents of fraud, waste, abuse, and mismanagement that have come to be known as the 1989 HUD scandals.
Overview

Organizational problems have included overlapping and ill-defined responsibilities and authorities between HUD headquarters and field organizations and a fundamental lack of management accountability and responsibility. Having an insufficient mix of staff with the proper skills has hampered the effective monitoring and oversight of HUD programs and the timely updating of procedures. Poorly integrated, ineffective, and generally unreliable information and financial management systems have failed to meet program managers’ needs and have not provided adequate control over housing and community development programs.

Progress

HUD has made a start in correcting these long-standing deficiencies. HUD’s top management team has focused much attention and energy on overhauling the way the agency is operated. The agency has formulated an entirely new management approach and philosophy, balancing risks with results; is implementing a substantial field reorganization; and has initiated a number of other actions that begin to address the four fundamental management deficiencies. Recently, there have been discussions on changing HUD that have ranged from major restructuring to total
Overview

elimination of the agency. The Secretary recently announced a proposal to further “reinvent” the agency over the next 4 years by (1) consolidating individual housing assistance and community development programs into three performance-based block grant funds, (2) transforming public housing, and (3) changing the Federal Housing Administration (FHA) into an entrepreneurial government-owned corporation. Because many of these actions are either still in the conceptual or planning stage, it is much too early to assess their effectiveness. Nevertheless, HUD will need to continue working to address the overall deficiencies.

Outlook for the Future

HUD has plans and has initiated actions to begin to address the deficiencies we identified. However, HUD now faces the formidable challenges of completing its plans, translating its plans into effective actions, and implementing its new management approach into the fabric of the agency’s day-to-day operations. Regardless of the form the above restructuring or reinventing proposals take, sustained focus, commitment, and consistent follow-up by HUD’s leadership will be needed—something that has not accompanied past reform.
attempts and was recently reported as a concern by HUD’s Inspector General.

In addition, to further ensure that risks are reduced to acceptable levels throughout its wide spectrum of operations, HUD needs to complete its efforts to address the internal control weaknesses reported in the financial audits of FHA and the Government National Mortgage Association (GNMA), as well as continue with the full implementation of its plans to reorganize and streamline HUD headquarters. The following actions are also needed to help HUD deal with staff and resource constraints: (1) undertake an extensive legislative overhaul and consolidation of programs, (2) give HUD legislative authority to use more innovative techniques to leverage private investment in community development and affordable housing, and (3) free GNMA from HUD’s personnel ceilings. Much work also remains before information resources adequately support HUD’s mission, such as strengthening business and information resources management planning and establishing an information architecture and a departmentwide data management program.

HUD’s recent “reinvention” proposal calls for a fundamental overhaul of HUD programs and
the way they are delivered. If implemented, the proposal would shift to states and localities much more of the responsibility for designing and implementing specific programs to more effectively accomplish HUD’s mission in their jurisdictions, and it would make HUD more of an overseer and clearing house for information on model programs. Because the proposal is still in the conceptual stage and implementation details are not available, it is difficult to predict how the proposal might affect the corrective actions and plans that HUD already has under way. The extent to which this or some other restructuring alternative is implemented will have to be decided by the Congress through the legislative and appropriation processes. However, no matter what form HUD finally takes, strong internal controls, an effective organizational structure, a sufficient mix of properly skilled staff, and adequate information and financial management systems will remain key ingredients to the proper management and control of risks. The dialogue on how best to “reinvent” HUD presents the agency, the Office of Management and Budget, and the Congress with an excellent opportunity to work together to eliminate HUD’s four fundamental management deficiencies.
HUD’s Fundamental Deficiencies

The highly publicized HUD scandal that surfaced in 1989 played a significant role in our decision to establish a special series of reports on high-risk areas across the federal government. We initially excluded HUD from this series because intense congressional scrutiny and legislative reform followed in the scandal’s wake. Although HUD began addressing the numerous and severe problems affecting its program management and service delivery, it made slow progress, leaving billions of dollars at risk. We therefore decided in January 1994 that HUD, as an agency, warranted the focused attention that comes with designation as a high-risk area.

Four long-standing departmentwide deficiencies led to our designation of HUD as a high-risk area. These deficiencies are weak internal controls, an ineffective organizational structure, an insufficient mix of staff with the proper skills, and inadequate information and financial management systems.

Internal Controls

In 1992, we reported that internal control problems led to the 1989 scandal and its attendant highly publicized and embarrassing incidents of fraud, waste,
abuse, and mismanagement. In the most infamous of these, known as the “Robin HUD” incident, FHA did not have accounting data and internal controls in place to reconcile funds from the sales of government-owned properties with deposits to the U.S. Treasury. As a result, private real estate agents were able to steal millions of dollars by simply retaining the proceeds from the sale of FHA-owned properties rather than transferring the funds to the Treasury.

As part of the annual financial audits required by the Chief Financial Officers Act of 1990, the public accounting firm of Price Waterhouse found that material weaknesses continued in FHA’s and GNMA’s internal controls during fiscal year 1993. Price Waterhouse attributed these weaknesses, in part, to a lack of staff resources. The weaknesses reported for FHA included lack of staff and administrative resources for such tasks as systems maintenance and development, management of troubled assets, and implementation of new automated systems; inadequate emphasis on providing early warning of and preventing loss through defaults; and inadequate automated systems to provide needed management information or reliable
HUD’s Fundamental Deficiencies

information. The weaknesses reported for GNMA were inadequate monitoring of subservicers and contractors and inadequate controls over systems development, operation, and maintenance.

In January 1994, the Office of Management and Budget added GNMA’s Mortgage Backed Securities Program to HUD’s inventory of high-risk areas because of inadequate monitoring of major contract operations. In addition, on the basis of a joint recommendation from HUD’s Inspector General and Chief Financial Officer, the Secretary of HUD identified the agency’s entire management control system as a material weakness in the Department’s December 1993 “Report on Compliance With the Federal Managers’ Financial Integrity Act.”

Organizational Structure

An ineffective organizational structure also has contributed to management problems throughout HUD. Organizational problems have included overlapping and ill-defined...

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HUD’s Fundamental Deficiencies

responsibilities and authorities in the agency’s headquarters, 10 regional offices, and 81 field offices; disagreement on program priorities; and poor communication of policy updates and management directives. A fundamental problem has been lack of management accountability and responsibility caused by assistant secretaries’ lack of direct line authority over the field office staff who implement their programs. As a result, program responsibilities and authority within HUD organizational units have sometimes been fragmented, creating redundancies and conflicting duties. Headquarters and field management often have denied responsibility or blamed each other for program failures and scandals.

Staff and Skills

HUD’s staff decreased from 17,041 in 1980 to 12,823 in 1993 (a 25-percent decrease). Coupled with the lack of adequate financial and management information systems, which could have helped staff oversee operations, the number and qualifications of HUD staff have proved to be inadequate to perform essential functions, such as efficiently monitoring programs and updating procedures. For example, HUD’s Office of Inspector General and HUD staff...
HUD's Fundamental Deficiencies

In 1984 and 1992, we reported that problems with HUD’s information and financial management systems impaired departmental operations. In April 1994, we reported that HUD continued to be plagued by poorly

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3When a borrower defaults on an insured loan, the lender may assign the loan to HUD and file an insurance claim. HUD should then work with the borrower to try to bring the loan current under the mortgage terms. This is generally done by developing a workout plan, which outlines the steps that both HUD and the borrower can take to restore the project’s financial health.
HUD's Fundamental Deficiencies

integrated, ineffective, and generally unreliable information systems that have not satisfied management needs or provided adequate control over housing and community development programs.

HUD’s information and financial management systems dilemma has endured because, historically, the Department has not planned and managed its information resources to meet its missions and strategic objectives. HUD also has lacked (1) a departmentwide information architecture to provide a standard framework to govern the management and use of information and information resources, (2) a data management program to ensure that departmentwide systems provide program managers with the information they need to effectively accomplish their missions, (3) adequate security controls for its computer systems that process sensitive and privacy data, and (4) contingency plans to provide for the recovery and continued processing of critical systems in the event of a major disruption or disaster. In addition, HUD’s efforts to develop and implement integrated financial systems have been impeded by ineffective planning and management oversight.
HUD Is Beginning to Implement a Corrective Strategy

HUD’s top management team has focused much attention on overhauling the way the agency is managed. It has formulated a new management approach and philosophy that HUD officials believe will provide the framework needed to eventually resolve the long-standing systemic problems that we believe put the agency’s programs at risk. The Department recently established a Management Committee that is responsible for ensuring the implementation of the new management approach and philosophy. HUD has also initiated a number of more specific actions that address these deficiencies. Like HUD’s broader management changes, these actions are either still in the planning stage or still being implemented. Consequently, it is much too early to assess their effectiveness.

HUD’s New Management Approach

HUD calls its new approach “balanced management” because the objective of this approach is to strike a balance between management based on financial integrity (which seeks to ensure that funds are spent for the purpose intended and that fraud, waste, and abuse are minimized) and management based on performance (which seeks to ensure that planned outcomes are achieved). The idea behind the balanced
approach is to combine the advantages, while avoiding the pitfalls, of these two previously used approaches.

HUD also has created what it calls a “strategic performance system” as a tool for achieving balanced management and transforming HUD into a customer- and results-oriented organization. This system consists of three components, which are in various stages of development.

The first component (called the “strategic framework”) consists of HUD’s long- and short-term commitments—the factors that managers must consider when making strategic or major resource use decisions. The strategic framework includes items such as the Department’s mission statement, the Secretary’s objectives, HUD’s performance agreement with the President, organizational plans, and customer service plans. Annual management plans form the second component. The first set of these (covering fiscal year 1995) is still in various stages of development and is scheduled to be completed by the end of January 1995. When completed, a management plan for each of HUD’s major program areas will include performance goals and outcome indicators for tracking progress in achieving the goals;
estimates of the resources needed to achieve the goals; and a clear identification of risks, efforts intended to abate the risks, and management control elements. The final component of the new performance system is the Secretary’s performance report—a quarterly report that will track the incremental achievement of performance indicators, the risks that have been encountered, and the abatement efforts that have been devised and implemented. HUD’s major program management areas have been charged with the responsibility of developing information strategy plans in conjunction with the strategic performance system. These plans will identify business and information needs.

In addition to redesigning its overall management approach, HUD has initiated actions addressing the four fundamental management deficiencies that we identified.

**Internal Controls**

HUD began an internal management controls “laboratory” project during the latter months of 1993. The project, conducted in the Office of Multifamily Housing, sought to develop and demonstrate a new method of integrating management controls into the program delivery and budget formulation.
 HUD Is Beginning to Implement a Corrective Strategy

processes. (Previously, HUD spent a great deal of time and money separately reviewing internal controls and identifying problems that were already known to most managers.) The project led in July 1994 to the incorporation of a “management planning and control program” into HUD’s strategic performance system (described above). HUD’s Office of Inspector General participated in the development of the program and supports its concept. Implementation of the new process will not be completed, however, until sometime in fiscal year 1995.

The new management planning and control program will be carried out through two principal components of the strategic performance system: the management plans that each program area is to develop and the Secretary’s performance report. Each management plan will contain management control elements that identify and prioritize the major risks in each program and then describe how these risks will be abated, how management controls will be built into any new programs being created, and how the effectiveness of controls for existing programs will be ensured. HUD provided training on the new process to about 300 field program managers in August 1994, and,
as of October 1994, HUD’s Chief Financial Officer’s staff were working with the major program management groups to develop their plans. HUD expects to have these plans completed and the adequacy of their management control elements reviewed by the Chief Financial Officer by the end of January 1995. Each program area also must develop performance indicators for its management controls—a process that had begun by October 1994 and is expected to continue during fiscal year 1995. Once developed, these and other management performance indicators will be reported quarterly in the Secretary’s performance report.

Actions are being taken to address the internal control weaknesses identified in the Price Waterhouse audits of FHA’s and GNMA’s financial statements, according to the audit reports. All actions are not complete and all of the weaknesses have not been eliminated, however. HUD officials stated that in June 1994 the Office of Management and Budget removed two areas from HUD’s inventory of high-risk areas—FHA’s single-family property disposition and GNMA’s oversight of contractors. According to one official, HUD management believes the agency now has a process that, once
HUD Is Beginning to Implement a Corrective Strategy

implemented, will eliminate most internal control weaknesses.

Organizational Structure

In April 1994, HUD began implementing a reorganization plan. The Secretary decided to give the assistant secretaries direct line authority over their field staff resources and to abolish a layer of management and oversight that existed in the Department’s 10 regional offices. The Secretary took this action to address what he characterized as a basic lack of accountability that was the single major cause for the failure of HUD’s management controls.

Besides eliminating the 10 regional offices and realigning staff, the reorganization restructured HUD’s 81 field offices into a new arrangement of state and area offices. Fifty-two of HUD’s previous field offices (one in each state plus the District of Columbia and Puerto Rico) were designated as state offices, each of which is headed by a new position of state coordinator. The remaining 29 field offices were designated as area offices to serve major metropolitan areas. Each of these offices is headed by a new position of area coordinator. Functions previously performed by the regional offices are to be transferred to either HUD
HUD Is Beginning to Implement a Corrective Strategy

headquarters or the state/area offices or are to be abolished.

Unlike HUD’s former regional and field office managers, the new state and area coordinators are administratively responsible for running their offices but not for managing program budgets or making personnel decisions. Responsibility for program management at the local level now resides directly with the heads of the divisions in each state and area office that parallel HUD’s major program groupings: Housing, Public and Indian Housing, Community Planning and Development, and Fair Housing and Equal Opportunity. These division directors now report directly to their corresponding assistant secretaries in HUD headquarters. The state and area coordinators, however, are to serve as HUD’s customer service representatives.

Although HUD’s 10 regional offices were eliminated, 10 new secretary representative positions were created to serve as the Secretary’s “eyes and ears” in the same geographic areas. Unlike the former regional

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4As part of the reorganization, HUD also restructured field divisions that administer programs in the Housing group (FHA mortgage insurance programs) to match the organization in headquarters. Formerly organized along the functional lines of housing management and housing development, the field divisions are now organized along single-family and multifamily program lines.
directors, these representatives have no line authority over the field program office staff; instead, they are to act as liaisons to governors, other state officials, and broad-based interest groups.

HUD expects that the reorganization will eliminate previously confused lines of authority, enhance communications, reduce layers of review and approval, and improve customer service. It believes the new field structure and lack of regional bureaucracy will make HUD more responsive to the people it serves. By delegating more programmatic and administrative authority to its restructured offices in the field, HUD expects to empower them to provide timely and high-quality service to its customers. HUD also expects its field staff to assume more responsibility for coordinating HUD programs locally, for maintaining closer contact with local communities, and for being more responsive to local concerns. HUD recognizes, however, that these roles are nontraditional for HUD staff and must be carefully developed.

If implemented as HUD envisions, these organizational changes could make a positive difference. However, it will be important for HUD to ensure that the changes
do not unduly weaken the coordination of program services or reduce staffing flexibility at the local level. In a recent congressionally directed study of HUD, the National Academy of Public Administration (NAPA) noted that the reorganization would clarify lines of authority and improve program accountability; however, it concluded that the new field structure might diminish rather than improve HUD’s coordination of program services at the local level.\(^5\) Because responsibility for program coordination and community outreach rests with staff who have no decision-making authority (the state/area coordinators and the 10 secretary representatives), the NAPA study panel believed that it would be difficult to gain support for a single local plan of action or to resolve differences of opinion among HUD’s major program management groups or between HUD and the local community. The panel also was of the opinion that HUD could lose its flexibility to reallocate staff among programs at the local level.

Not only has NAPA reported concerns about the reorganization, but the Office of Inspector General also recently reported that

the reorganization efforts were behind schedule. The report further stated that HUD needed to streamline and reorganize headquarters operations to support field operations and free resources for effective program delivery. HUD officials told us that the agency submitted a plan for streamlining its headquarters organization to the Office of Management and Budget in October 1994. The plan was subsequently approved and HUD is implementing the plan, expecting the changes to eliminate layers of management and expedite decision-making.

While HUD’s field staff reorganizes and gets acclimated to its new customer service role in the community, FHA is also studying its organization. A business plan along with a legislative proposal is being developed, and according to officials, is expected to be released in February as part of the President’s budget. FHA’s mission is to increase housing opportunities by providing insurance to encourage private lenders to underwrite mortgages they would otherwise consider too risky. FHA’s insurance programs are thus designed to balance the social goal of helping more risky borrowers obtain mortgage financing with the business goal of

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HUD is Beginning to Implement a Corrective Strategy

Staff and Skills

HUD has taken several definitive actions to upgrade the skills of its staff. It established a Training Academy and increased its capacity to carry out “distance learning” (classroom training that links teachers and students in different locations via video/audio transmission). Beginning in fiscal year 1994, HUD instituted individual development plans for all employees. The Secretary also established additional priorities for upgrading HUD’s training efforts, which include developing a comprehensive needs assessment and improving the career development program. Both the NAPA study and HUD’s Inspector General, however, have expressed concerns about the adequacy of the resources committed to these efforts so far.

Given the reality of today’s federal budget constraints, HUD has attempted to address the problem of staff and resource shortages primarily by initiatives designed to make more effective and efficient use of existing resources. It provided its principal staff with a new resource management manual, which features a “tool kit” of methods for assessing
resource requirements, improving key business processes, allocating and assigning staff, and tracking performance. The kit includes items such as the “business process reengineering tool” and the “staff management and assignment resource tool.” In May 1994, HUD also transmitted to the Congress what it called a “transformation plan.” Part of the plan’s purpose was to clarify HUD’s mission and announce an agenda for consolidating and streamlining programs.

The plan established six priorities that are to guide all decisions, including those on resource allocation and program consolidation. The priorities are (1) reducing homelessness, (2) revitalizing severely distressed public housing, (3) expanding housing opportunities, (4) opening housing markets, (5) empowering communities, and (6) bringing excellence to HUD’s management. The plan announced HUD’s consolidation of its disparate operations into 17 program areas, which HUD recommended become the basis of its budget beginning in fiscal year 1996. In connection with the plan, HUD also proposed legislation to consolidate or discontinue 59 programs and announced that 47 other programs were undergoing intensive review in an effort to achieve
HUD Is Beginning to Implement a Corrective Strategy

further consolidation and streamlining. Although HUD’s proposed legislation was not enacted in 1994, HUD planned to propose legislation again in 1995.

HUD’s legislative package included proposals to consolidate the McKinney Act programs for assisting the homeless and to merge the section 8 voucher and certificate programs. In two separate May 1994 reports, we endorsed these ideas. However, we cautioned that merging the voucher and certificate programs could pose a temporary workload burden on HUD and the local housing agencies that administer these rent subsidies for low-income households. We therefore cautioned policymakers to ensure in advance that HUD has sufficient capacity to complete the merger.

In 1994, the Congress enacted legislation that should help FHA address resource constraints that have impaired its ability to prevent defaults on insured multifamily loans. As we testified in May 1993, the lack of funding to preserve low-income housing, as required in then-existing law, had restricted HUD’s ability to dispose of HUD-owned multifamily properties and had limited HUD’s ability to make foreclosure and sales decisions on the basis of housing needs
HUD Is Beginning to Implement a Corrective Strategy

and objective comparisons of costs with benefits. As a result, HUD had become the landlord for a huge inventory of properties—a role that it was never intended to play or adequately staffed to fulfill. In April 1994, the Congress enacted the Multifamily Housing Property Disposition Reform Act of 1994, which provides HUD with more flexibility in disposing of multifamily properties. HUD believes that the new law will enable it to reduce its multifamily inventory at savings to the taxpayer that, in turn, will free staff to better manage its multifamily program assets and focus on preventing defaults. HUD is also selling a substantial portion of the multifamily loans that have been assigned to it as a way to further reduce the workload of field office staff.

Information Systems

In response to our April 1994 report, the Secretary stated that he is committed to developing and implementing a strategic business plan that focuses on HUD’s long-term objectives and the approaches needed to achieve its missions, goals, and objectives. In addition, the Secretary committed HUD to correcting its long-standing information systems problems and to making the information resources
management program more responsive to HUD’s mission.

HUD clarified accountability by making assistant secretaries responsible for managing the information and financial systems in their program areas. HUD also established a Technology Investment Board to set priorities among systems projects and to review and allocate the Department’s information resources budget. In November 1993, HUD published its data administration standards, which describe HUD’s policies and guidelines for establishing common data and data standards. The Department plans to expand the data management program to emphasize program area responsibilities and departmentwide management concerns.

The Department has also taken some actions to strengthen computer security controls and contingency plans for critical information systems. These actions include issuing a revised automated data processing security program handbook, installing access control software for one group of computer mainframe systems, working to upgrade the access control software for the other computer mainframe systems, and preparing a business resumption plan to
HUD Is Beginning to Implement a Corrective Strategy

provide for the recovery and continued processing of critical systems in the event of a major disruption or disaster.

The Chief Financial Officer has overall responsibility for the financial integration plan and monitors and reports project status to the Management Committee. According to HUD, this provides assurance that significant problems are brought to the attention of senior managers and are corrected in a timely manner. During fiscal year 1994, HUD prepared detailed plans for all financial systems integration projects and implemented the agency's accounting system to support administrative accounting functions.

HUD will update its plan for the transition to the new integrated systems. The plan will include individual project plans and will address new roles, responsibilities, procedures, systems and information security, and communication and coordination of overall integration efforts.

Recently, there have been discussions on changing HUD that have ranged from major restructuring of the agency to its total elimination. In December 1994, the Secretary
of HUD announced a proposal calling for restructuring the agency to improve its performance in delivering housing and community development programs. Under this “reinvention” proposal, programs would be consolidated, their design and implementation would devolve to states and localities, and HUD would assume an oversight role and serve as a clearing house for national models. The reinvention plan consists of three components:

- Consolidate programs and move to performance-based funding. Reinvention would consolidate 60 HUD programs into three flexible, performance-based funds—Housing Certificates for Families and Individuals, the Affordable Housing Fund, and the Community Opportunity Fund. Under all three funds, the federal government would require performance measures and accountability in return for the devolution of substantial authority and resources to local and state governments. Performance would be evaluated annually.
- Transform public housing. Operating and capital subsidies now provided to local housing authorities would be converted to Housing Certificates for Families and Individuals. Housing authorities would have to compete in the marketplace for
low-income residents with other providers of affordable housing. In addition, HUD would deregulate more than 3,000 of the housing authorities that were performing well; break up the worst large, troubled housing authorities and divest parts of their portfolios to nonprofit owners and managers; and demolish thousands of severely deteriorated units for which there is no market demand.

- Create an entrepreneurial government-owned FHA corporation. The new corporation would consolidate FHA's staff and offices under two general insurance activities—single-family and multifamily. The new corporation would provide federal credit enhancement to finance expanded homeownership opportunities and the development of affordable rental housing. The new corporation would rely on public/private partnerships and market mechanisms to provide a variety of products to meet housing credit needs. The new corporation would also sell the existing note portfolio where possible.
Further Actions Are Needed for HUD’s Transformation

HUD has started to correct its long-standing deficiencies by initiating a new management strategy, a new organizational alignment, and numerous plans. HUD now faces the formidable challenges of completing its plans, translating its plans into effective action, and implementing its balanced management approach into the fabric of its day-to-day operations. Sustained focus, commitment, and consistent follow-up by HUD’s leadership will be needed—something that has not accompanied HUD’s past attempts at reform and was recently reported as a concern by HUD’s Inspector General.

HUD has initiated many actions that address the four fundamental management deficiencies that put its programs at risk. In addition, to further ensure that risks are reduced to acceptable levels throughout HUD’s wide spectrum of operations, HUD needs to take the following actions:

- Complete efforts to address internal control weaknesses reported in the financial audits of FHA and GNMA.
- Continue with the full implementation of its efforts to reorganize and streamline HUD headquarters to support field operations and
Further Actions Are Needed for HUD's Transformation

free resources for more effective program delivery.
• Continue to work with the Office of Management and Budget and the appropriate committees of the Congress to enact legislation to (1) help the agency deal with staff and resource constraints through an extensive legislative overhaul and consolidation of programs that will give communities greater flexibility in applying for funds and reduce administrative burdens both within HUD and among its program users, (2) give HUD legislative authority to use more innovative initiatives to leverage substantially more private investment in community development and affordable housing, and (3) free GNMA from HUD’s personnel ceilings so that it can better focus on the risk presented by the more than $400 billion worth of mortgage-backed securities it guarantees.
• Continue to improve support of its missions by (1) strengthening strategic business and information resources management planning and developing linked strategic plans and (2) establishing a strategic information architecture and departmentwide data management program.

HUD has plans to address many of these issues, but it is much too early to assess their
Further Actions Are Needed for HUD's Transformation

effectiveness. Because HUD’s recent reinvention proposal is still in the conceptual stage and implementation details are not available, it is difficult to predict how the proposal will affect the corrective actions and plans that HUD already has under way. The extent to which this or some other restructuring alternative is implemented will have to be decided by the Congress through the legislative and appropriation processes. The 104th Congress is examining HUD’s mission, operations, and future funding levels. However, no matter what form HUD finally takes, strong internal controls, an effective organizational structure, a sufficient mix of properly skilled staff, and adequate information and financial management systems will remain key ingredients to the proper management and control of risks. The debate on how best to “reinvent” HUD presents the agency, the Office of Management and Budget, and the Congress with an excellent opportunity to work together to eliminate HUD’s four fundamental management deficiencies.
Related GAO Products


Federally Assisted Housing: Condition of Some Properties Receiving Section 8 Project-Based Assistance Is Below Housing Quality Standards (GAO/T-RCED-94-273, July 26, 1994).


Homelessness: McKinney Act Programs Provide Assistance but Are Not Designed to Be the Solution (GAO/RCED-94-37, May 31, 1994).

Section 8 Rental Housing: Merging Assistance Programs Has Benefits but Raises Implementation Issues (GAO/RCED-94-85, May 27, 1994).
Related GAO Products

Lead-Based Paint Poisoning: Children in Section 8 Tenant-Based Housing Are Not Adequately Protected (GAO/RCED-94-137, May 13, 1994).


HUD Information Resources: Strategic Focus and Improved Management Controls Needed (GAO/AIMD-94-34, Apr. 14, 1994).

Multifamily Housing: Status of HUD’s Multifamily Loan Portfolios (GAO/RCED-94-173FS, Apr. 12, 1994).


Assisted Housing: Evening Out the Growth of the Section 8 Program’s Funding Needs (GAO/RCED-93-54, Aug. 5, 1993).

Related GAO Products

Multifamily Housing: Impediments to Disposition of Properties Owned by the Department of Housing and Urban Development (GAO/T-RCED-93-37, May 12, 1993).

Letter on FHA Internal Controls to the Ranking Minority Member, Subcommittee on Housing and Community Development, House Committee on Banking, Finance, and Urban Affairs (B-249052, Sept. 30, 1992).


1995 High-Risk Series

An Overview (GAO/HR-95-1)

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