

**DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
OFFICE OF THE CHIEF FINANCIAL OFFICER
WORKING CAPITAL FUND
2020 Summary of Resources**

(Dollars in Thousands)

	Enacted/ Requested	Carryover	Supplemental/ Rescission	Total Resources	Obligations	Outlays
2018 Appropriation	39,077	15,243	-	54,320	37,936	38,948
2019 Annualized CR	36,688	3,077	-	39,765	36,333	36,333
2020 Request	78,683	3,077	-	81,760	78,683	78,683
Program Improvements/Offsets	41,995	-	-	41,995	42,350	42,350

1. WCF Purpose and Budget Overview

The Working Capital Fund (WCF) anticipates a total operations level of \$78.7 million for 2020, which is \$42.3 million more than the 2019 Annualized Continuing Resolution (CR). The WCF serves as a mechanism for the Department of Housing and Urban Development (HUD) to finance enterprise goods and services. These funds are requested across HUD’s Salaries and Expenses (S&E) accounts and reflected in the WCF as reimbursable authority from offsetting collections. The budget does not request a direct appropriation for the WCF.

2. Request and Anticipated Revenue

The 2020 President's Budget provides for each HUD office to pay for its use of WCF goods and services through payments to the WCF for its estimated share. The requested level will support the activities in **Table 1**.

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TABLE 1

Working Capital Fund Service Costs	2018 Actual	2019 Annualized CR	2020 President's Budget
Financial Management, Procurement, & Travel Services	22,147	21,281	21,281
Human Resources Processing	12,274	11,078	12,274
Human Resources Systems	3,363	3,077	3,131
Payroll Processing	1,293	1,252	1,293
Financial and Physical Assessments	-	-	38,643
Working Capital Fund Operations	-	-	2,061
Total Operating Budget	\$39,077	\$36,688	\$78,683

Current Activities:

- Financial management, procurement, and travel services
- Human resources processing services
- Human resources platforms
- National Finance Center (NFC) payroll processing

New Activities proposed for 2020:

- Working Capital Fund Operations to fully recover WCF Division costs
- Real Estate Assessment Center (REAC) Physical Assessment (PA) Services
- REAC Financial Assessment (FA) Services

3. Justification

The Working Capital Fund Division (WCFD) formulates and executes the financial operations of the WCF. Business-line owners, such as the Office of the Chief Financial Officer and the Office of the Chief Human Capital Officer, are responsible for the management and delivery of WCF goods and services. The Consolidated Appropriations Act of 2016 established the WCF as a mechanism for the Department to provide enterprise-level services to HUD offices in an efficient, effective, and transparent manner. Throughout 2016 and 2017, HUD established WCF governance and financial management protocols per best government practices outlined by the Office of Management and Budget and the Government Accountability Office. HUD established WCF governance committees, transparent WCF budgeting practices, customer billing

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practices, and service-usage reporting during this period. In 2017, the WCF collected reimbursement for shared services from all HUD customer organizations. In 2018, the WCFD refined and streamlined WCF operations and business processes, including building capacity to move to a full cost-recovery model, while increasing institutional capacity for onboarding future business lines into the WCF. The request to move to full cost-recovery operations, where WCF Division costs are recovered through collections from HUD customers, was included in the 2019 President's Budget and in the 2020 Budget as "Working Capital Fund Operations." The 2020 Budget begins to expand service offerings with the inclusion of REAC physical and financial assessments.

Key Assumptions

- No substantial changes in costs are expected for current shared services with ARC, Treasury, and NFC.
- Working Capital Fund Operations costs include an additional three full-time equivalents (FTEs) to accommodate growth in the fund, including cash management and execution analysis. This increase in personnel will be offset by a decrease in contractor support as federal employees onboard.
- REAC PA and FA business lines include 156 FTEs to provide these services.
- REAC PA and FA funding is a budget neutral realignment from multiple accounts into the S&E accounts for PIH, Office of Housing, and CPD.

Working Capital Fund Outcomes

- Provide efficient and effective delivery of enterprise goods and services
- Incorporate incentives for program offices to efficiently utilize WCF services by aligning costs to usage
- Reduce overlap and duplication of efforts by providing a joint platform for common administrative needs across offices
- Increase transparency into the costs, operation, and management of HUD common services

Current Shared Services

The Department of the Treasury provides shared services for HUD financial management, procurement, and travel for which the OCFO is the business-function lead. These shared services include a full range of accounting and procurement services, such as budget and financial transaction processing, purchase and fleet card services, financial reporting, and travel and relocation services. The Department of the Treasury and the National Finance Center (NFC), with the Office of the Chief Human Capital Officer (OCHCO) acting as the servicing business lead,

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provide human capital services to HUD. These services include human resources transaction processing, human resources systems, and payroll processing.

New Services Requested in 2020

Full Cost Recovery: The full cost recovery proposal, “WCF Division Operations,” was requested in the 2019 President’s Budget as well as in the 2020 Budget. While the WCF manages cost allocation, ordering, billing, and usage reporting for internal HUD customers of externally-provided shared services, the full cost of service delivery (including WCF S&E) is not currently charged to customers. Under full cost recovery, WCF Division costs will be budgeted as part of customer WCF allocations across S&E accounts. Throughout 2018, the WCF designed and implemented organizational, business process, and technology changes required to achieve full cost recovery in 2019. Implementing full cost recovery aligns with the vision that the WCF communicated to Congress and OMB for the continued development and maturity as a fund, and will:

- **Align with the Administration’s priorities to realize efficiencies through business-like practices:** Converting services from a conventional administrative framework with direct funding and centralized management to a WCF changes the way decisions are made, vesting more decision-making in HUD customers¹.
- **Facilitate the pricing and provision of internally provided administrative shared services within the Department:** The WCF will expand the scope of services managed through the fund to include internally provided administrative services. Cost accounting processes and technology will allow the WCF and business line owners to determine the full costs of these services and the charges required to equitably and fully recover costs.
- **Achieve further compliance with GAO’s key operating principles for working capital funds²:** Three of GAO’s four key operating principles for WCFs require full cost recovery capabilities:
 1. Ensure Self Sufficiency by Recovering Actual Costs: Cost accounting processes and technologies determine the pricing and rates required to meet revenue goals and recover the full costs of delivery
 2. Measure Performance: Cost accounting processes and technologies determine the pricing and rates required to meet revenue goals and recover the full costs of delivery
 3. Maintain Flexibility to Obtain Customer Input and Meet Customer Needs: Demand forecasting and scenario analysis will allow the WCF to make data-driven decisions on what service to deliver and how demand impacts pricing

¹ U.S. Department of Energy, Guidebook for Creating and Managing a Working Capital Fund Business, 2003

² GAO Report: Intragovernmental Revolving Funds: Commerce Departmental and Census Working Capital Funds Should Better Reflect Key Operating Principles, Nov 2011
<http://www.gao.gov/assets/590/586402.pdf>

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REAC Physical Assessment and Financial Assessment Services: The 2020 Budget supports the movement of REAC PA and FA services to be funded through the WCF. To ensure these properties are maintained in accordance with federal law and regulations, REAC provides its customers independent assessments of each properties' financial and physical condition.

REAC's FA business line budgets \$12.6 million and 51 FTEs to conduct financial statement assurance reviews and advanced financial assessments for its customers. In 2020, REAC will generate more than 28,000 FAs for the Office of Housing and about 7,000 FAs for the Office of Public and Indian Housing. Advanced financial assessments work to mitigate issues before they become problems for the Department or determine the root cause of irregularities and identify options for resolving. REAC will conduct approximately 55 engagements in 2020.

REAC's PA business line budgets \$26 million and 98 FTEs to generate about 15,000 PAs in 2020. federal law and regulations require HUD-supported housing to be decent, safe, and sanitary. REAC conducts an inspection of each property to generate an overall assessment to inform and support HUD's field offices in carrying out their oversight responsibilities. Each PA provides an independent assessment of a property, highlighting health and safety risks to the residents, an owner's overall care of the property, and supports the proper use of federal funds.

Under the full cost recovery model, the cost of shared resources is allocated within the PA and FA business lines to the unit prices of each service. REAC budgets 7 FTEs to provide administrative, budgetary, and technical assistance services. For example, REAC's Technical Assistance Center receives and resolves 100,000 inquires per year to both business lines. Customer ordering, fulfillment, and engagement services are managed by these FTEs.

Efficiency, Strategic, and Operational Improvements

- Governance – REAC and their stakeholders identified opportunities to transform the way it provides information and services to its customers. REAC will utilize the WCF governance structure to target investments and transition operations to the customer-driven model that aligns incentives to deliver higher quality services at lower long-term cost.
- Administrative – REAC will combine auctions from multiple HUD programs and streamline inspection procurement. REAC will identify opportunities to rebalance which functions are performed internally, automated, or outsourced.
- Operational Efficiencies – REAC will reduce overlap and duplication of efforts by using insights gleaned from internal cost accounting reviews to inform management on where operations and processed can be optimized.
- Accountability – REAC will incorporate incentives for program offices to utilize WCF services efficiently by aligning costs to usage. Transparency enables customers to make data-driven decisions regarding volume of services.

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- PA Business Line Reexamination – in 2020 REAC will implement changes from its ongoing wholesale reexamination of how it conducts inspections. REAC will continue running a regional demonstration to validate a new inspection model.

Stakeholders

- Increase stakeholder engagement through increased transparency and service level accountability. Since REAC customers will be paying for the services used, REAC will develop increased responsiveness to customer requests and requirements.
- Encourage greater competition among private sector contract inspectors while increasing inspection quality. The ability to schedule larger numbers of inspection blocks by geographic area will increase the number of interested parties for a given contract block.
- Internal HUD WCF Customers are engaged in this proposal to move PA and FA services into the WCF. All WCF customers were included as a reviewing body for the REAC business case to move PA and FA services into the WCF.

Funding Impact

Moving REAC assessments into the WCF is a budget-neutral realignment of funds within the Department. The budget realigns budget authority from PIH, Housing, CPD, and IT Fund accounts to the WCF amounts within the PIH, Housing, and CPD S&E accounts (see Table 2 below). Annually, REAC performs or oversees approximately 12,000 PAs and performs or reviews approximately 35,000 FAs. Under the WCF model, REAC will continue at these current levels. The shift to the WCF will allow customers to easily scale up or down their service usage based on operational requirements and assessment needs and collaborate with the service provider on making needed updates to the assessment models.

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TABLE 2- REAC Budget Neutral Realignment
Dollars in Thousands

Customer	FY20 Base Funding	% of REAC Funds	FY20 Allocation	New % of REAC Funds	Realignment
CPD	-	0%	566	2%	566
PIH	32,202	83%	13,793	36%	(18,409)
Housing	3,305	9%	24,284	63%	20,979
IT Fund	3,136	8%	-	0%	(3,136)
Total	38,643	100%	38,643	100%	-

Capital Investments and Operational Improvements: In 2019 and 2020, the WCF will establish a Capital Investment Plan (CIP). The CIP builds capability for reinvestment in the infrastructure of WCF business lines to improve product and service quality and timeliness, reduce costs, and foster state-of-the-art business operations. The CIP will provide the framework for planning, coordinating, and utilizing WCF resources and expenditures to obtain capital assets. Included in the CIP are equipment and software, whether internally or externally developed. CIP investments will be financed out of the existing WCF Corpus and are not anticipated to impact resource requirements for WCF Customers in 2020. Investments funded from the WCF may be depreciated and recapitalized via WCF customer collections in future years.

In 2019, the WCF will pursue obtaining a cost and profitability management software package to improve management of cost allocation, ordering, billing, and usage reporting for HUD customers. This system will increase the transparency and accuracy of shared services pricing, support full cost recovery, reduce the likelihood of manual errors in data processing, create the capability to conduct what-if analyses, and significantly reduce the level of effort required for cost modeling and maintenance.

In 2020, the WCF CIP will include investments toward better leveraging technology and improving underlying business processes, and toward streamlining mission-support functions. To reduce manual data entry and transaction processing, the WCF will explore opportunities within the WCF Division operations to utilize technologies such as Robotics Processing and Automation (RPA). This allows WCFD staff to focus on higher value activities, such as service quality, customer service and outreach, and data analysis.

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2020 WCF Capital Investment Plan			
<i>Dollars in Thousands</i>			
	FY 2018	FY 2019	FY 2020
Equipment	-	-	-
Software	-	300	400
Total	-	300	400

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**OFFICE OF THE CHIEF FINANCIAL OFFICER
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Appropriations Language
(INCLUDING TRANSFER OF FUNDS)**

The 2020 President's Budget includes the appropriation language listed below:

For the working capital fund for the Department of Housing and Urban Development (referred to in this paragraph as the "Fund"), pursuant, in part, to section 7(f) of the Department of Housing and Urban Development Act (42 U.S.C. 3535(f)), amounts transferred, including reimbursements pursuant to section 7(f), to the Fund under this heading shall be available for Federal shared services used by offices and agencies of the Department, and for such portion of any office or agency's printing, records management, space renovation, furniture, supply services, real estate physical inspections and financial assessments and related information technology, or other shared services as the Secretary determines shall be derived from centralized sources made available by the Department to all offices and agencies and funded through the Fund: Provided, That of the amounts made available in this title for salaries and expenses under the headings "Executive Offices", "Administrative Support Offices", "Program Offices" and "Government National Mortgage Association", the Secretary shall transfer to the Fund such amounts, to remain available until expended, as are necessary to fund services specified in the matter preceding the first proviso, for which the appropriation would otherwise have been available, and may transfer not to exceed an additional \$5,000,000, in aggregate, from all such appropriations, to be merged with the Fund and to remain available until expended for any purpose under this heading: Provided further, That amounts in the Fund shall be the only amounts available to each office or agency of the Department for the services, or portion of services, specified in the matter preceding the first proviso: Provided further, That with respect to the Fund, the authorities and conditions under this heading shall supplement the authorities and conditions provided under such section 7(f).

Note.—A full-year 2019 appropriation for this account was not enacted at the time the budget was prepared; therefore, the budget assumes this account is operating under the Continuing Appropriations Act, 2019 (Division C of P.L. 115- 245, as amended). The amounts included for 2019 reflect the annualized level provided by the continuing resolution.