



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
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MEMORANDUM FOR: Dwight P. Robinson, Deputy Secretary, DS

FROM: *me Phelps*
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SUBJECT: Interim Review of HUD 2020 Management Reform Plan

INTRODUCTION

This report provides our interim assessment of the HUD 2020 Management Reform Plan. Because these reforms are on a fast track, and in view of their significance and impact on HUD staff, we believe it is important that we provide you with our preliminary assessment of the Plan. Additionally, the issues discussed in this report will be included in our forthcoming Semiannual Report to Congress.

Our preliminary observations to date represent our best judgment as to the propriety and potential impact of HUD's reforms. We will continue to increase our focus on the potential benefits of HUD's reforms, their estimated cost, and the capacity of HUD to implement such reforms.

We included nine recommendations to address our preliminary concerns. The recommendations will be controlled in the Departmental Automated Audits Management System. Within 60 days for each recommendation, please advise us on: (1) the corrective action taken; (2) the proposed corrective action and the date to be completed; or (3) why action is not considered necessary. Also, please furnish us with copies of any correspondence or directives issued. Should you or your staff have any questions, please have them contact Michael R. Phelps, Deputy Assistant Inspector General for Audit, on 708-0364.

SUMMARY

While we agree that HUD must reform, and agree with some of the corrective measures in the HUD Reform Plan, we generally remain cautious about the potential effectiveness of HUD's new organizational configuration, the Department's capacity to implement its planned reforms, and the potential effectiveness of many of its planned

the Department's planned reforms was not performed prior to HUD's announcing its reform decisions in June of this year. Further, the HUD Reform Plan is built on an unsupported premise, namely, that the Department can adequately function with a staff of 7,500. This arbitrarily derived staff level was determined without first performing an adequate analysis of HUD's diverse and complex mission, and without assessing its financial risk exposure, functions, and future workload demands.

In conjunction with HUD's FY 1996 appropriations hearings, the Department stated in reference to its Reinvention Blueprint legislative proposals that *Without enactment of most of these proposals, reduction to 7,500 FTE will cripple HUD's operations.*" Although the Department is rapidly approaching its 7,500 staff target level, its reform implementation plans have not been finalized, and its proposed legislation to streamline and consolidate programs has not been enacted. As a result, the Department is now in serious jeopardy of not having the capacity to carry out its current mission and responsibilities. Furthermore, once the 7,500 downsizing target is reached, HUD will have no capacity to handle any additional workload that may come about as a result of the enactment of future HUD related legislation.

Positive Aspects of HUD's Reform Plan

We believe the HUD Reform Plan acknowledges the need to improve its performance and correct its material operating weaknesses. Accordingly, the Plan focuses on:

- Addressing such major weaknesses as HUD's (1) disjointed automated financial management systems; (2) inadequate monitoring of program recipients; (3) deficient contract procurement processes; and (4) proliferation of programs.
- Assessing the quality of public housing and other HUD assisted housing stock.
- Reforming the Public Housing Management Assessment Program (PHMAP) by placing greater emphasis on independent confirmation of housing agencies' PHMAP performance by nonfederal auditors.
- Aggressively pursuing enforcement actions against recipients of HUD assistance who engage in fraud, abuse or mismanagement of the Department's programs.
- Consolidating HUD's current multi-location Section 8 accounting, budgeting, and payment processing functions into a single Section 8 Financial Management Center.

Questionable Aspects of HUD's Reform Plan

With respect to the development and implementation of HUD's Reform Plan, we have the following concerns:

- There was a lack of consultation with responsible affected and interested parties in developing the Plan.
- HUD's staff downsizing target of 7,500 is not based on a methodological mission and workload analysis.
- Some aspects of the Plan are uncertain due to their tie to future legislation.
- HUD did not perform a cost-benefit analysis prior to issuing its Plan.

- The Plan does not go far enough in improving HUD's information systems.
- Many critical human resource issues remain to be resolved.
- HUD's staff downsizing is resulting in a serious loss of technical expertise.
- The structure and operating plans for overseeing public housing may be difficult to implement.
- HUD's Community Builders' concept raises questions.
- Issues affecting the relationship between the OIG and HUD's new enforcement center are still being resolved.

Among other things, we are recommending that HUD complete a cost-benefit analysis of its reforms; perform a detailed analysis of the Department's workload under the HUD Reform Plan; more thoroughly review the Department's mission; and adjust its reforms and staffing requirements based on these analyses and reviews.

BACKGROUND

During his Congressional confirmation hearings in January 1997, Secretary Cuomo stated that HUD's mission could not be carried out in the future unless the Department's house was in good order. He further stated that he would continue to build on Secretary Cisneros' reinvention efforts. Accordingly, on June 26, 1997, Secretary Cuomo followed through with his commitment by announcing the *HUD 2020 Management Reform Plan*.

The HUD Reform Plan is one of the boldest attempts to date to overhaul and improve the Department's operations, and comes after numerous attempts over the years to address HUD's shortcomings. The Plan calls for major staff downsizing, modification of HUD's Field and Headquarters organizational framework, consolidation of HUD's programs and activities, and significant changes in the way HUD conducts its business. Perhaps the most significant aspect of HUD's Reform Plan is its goal of downsizing HUD's staff from 10,500 to 7,500 by the year 2002. The Plan was published in the Federal Register as a Notice on August 12, 1997; however, public comments were not specifically requested.

Although HUD's Reform Plan is significant in terms of its scope and provisions, several of the Plan's proposed reforms have been underway or under consideration in one form or another since at least 1995. The current Plan, however, combines these ongoing reforms, program consolidations, and new reforms into a comprehensive strategy for facilitating HUD's revitalization.

OBJECTIVES AND SCOPE

Our objective is to determine if the Department's reorganization and realignment of functions are soundly based. Also, we wanted to review the Department's staffing and location decisions and see how these relate to anticipated workload requirements.

We conducted our review in September and October of this year. We focused on assessing the proposed program management and project reforms. We met with project reform team members, and program reform representatives, reviewed available draft plans and related documentation, and observed televised reform update briefings. Specifically, we interviewed members of the project reform teams for the Enforcement Center, Troubled Agency Recovery Center, Real Estate Assessment Center, and Section 8 Financial Management Center. We also met with program representatives from Multifamily Housing, Single Family Housing and the Chief Financial Officer.

Further, we requested specific documentation from the Deputy Secretary on August 20, 1997. This included, justification for location selections, information as to how proposed legislation impacted on management decisions, and how estimated workloads and resource needs were determined. Also, we requested copies of completed task force reports along with their recommendations. Documentation was provided in late September 1997.

FINDING - SOME ASPECTS OF HUD'S REFORM PLAN WARRANT SERIOUS QUESTIONING

While we agree with some of the corrective measures in the HUD 2020 Management Reform Plan, many aspects of the Plan warrant serious questioning. Generally, the Plan was developed without formal consultation with affected and interested parties. A cost-benefit analysis of the Department's planned changes was not conducted timely. Further, the Plan is built on an unsupported premise that the Department can adequately administer its functions and responsibilities with a downsized staff of 7,500. This staff level was arbitrarily derived without first performing an adequate analysis of HUD's diverse and complex mission, and without assessing its financial risk exposure, functions, and future workload demands. HUD's staff downsizing is also resulting in a significant drain of its technical staff resources. Moreover, the Plan does not go far enough in improving the Department's management information systems, lacks effective oversight of public housing agencies, and creates questionable "Community Builder" positions. We also believe that a number of issues affecting the relationship between our office and HUD's new Enforcement Center need to be resolved. Further, although the Department is rapidly approaching its 7,500 downsizing target, its reform implementation plans have not been finalized, and its proposed legislation to streamline and consolidate HUD programs has not been enacted. Given these concerns, we question whether HUD has the capacity to implement its planned reforms and whether its planned reforms will restore the public's trust in the agency.

<p>Lack of Consultation With Responsible, Affected and Interested Parties</p>
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HUD's Reform Plan was initially developed without adequate consultation with and/or direction from responsible, affected, and interested parties, particularly outside HUD. While some consultation is currently taking place, it has been limited and sporadic. This situation appears to be due to three factors: (1) an understandable impatience brought about by HUD's past history of formulating reform plans but taking little action to implement such plans; (2) the Reform Plan's adoption of a staff target level of 7,500 by the year 2002; and (3) the fact that HUD's current statutory buyout authority runs out in December 1997.

Because of the lack of adequate consultation with and/or direction from all pertinent parties, a number of extremely important questions remain unanswered. What are the costs of the HUD's reforms in contrast to their benefits? Are extensive buyouts by December 1997 a reasonable means to accomplish staff downsizing? How will HUD compensate for the substantial institutional expertise being lost through buyouts? How will PHAs and assisted multifamily housing owners be

able to cope with the multiple, overlapping, and interlocking HUD entities that will be overseeing their operations? Do communities need and want HUD to play a community building role? How will the non-enactment of HUD's Reform Plan authorizing legislation affect its planned reforms?

The most important issue is the potential capacity of HUD to carry out its broadly based mission and growing array of programs with a severely downsized, albeit reorganized, staff. In its July 1994 report, NAPA stated that HUD lacked adequate resources to carry out its responsibilities. At the time of NAPA's report, HUD's staff numbered about 13,500.

In its 1994 report on HUD, NAPA also stated *"As a partner in HUD's revitalization, Congress' role is to work with the administration and the secretary to develop a long-term agenda for change. Clarifying HUD's mission and consolidating its programs require the help of HUD's authorizing and appropriations committees."* We agree that any meaningful reform of HUD must entail the Department's close collaboration with the Congress and OMB, in addition to coordination with other affected and interested parties such as assisted low-income families, resident management entities, and other HUD recipients and low-income housing and community development trade organizations. No amount of reorganization or improvement of HUD's systems can overcome the fundamental need to more tightly define the Department's mission, restructure and consolidate HUD programs, and ensure the Department has adequate resources to carry out its mission and responsibilities.

We further believe that the reform of HUD cannot be done by HUD alone; the Congress must take an active role in bringing about positive change in the Department. The Congress should (1) review HUD's mission and refocus it in a more meaningful manner; (2) enact authorizing legislation to restructure and consolidate HUD's programs; (3) ensure that HUD has the necessary resources to carry out its mission and responsibilities; and (4) exercise ongoing oversight of HUD to ensure its agreed upon reforms are progressing satisfactorily.

Downsizing Target Not Based on Methodological Mission and Workload Analysis

HUD's staff downsizing target of 7,500 was adopted without first performing a detailed analysis of HUD's mission and projected workload under its proposed reforms. Consequently, HUD can neither support the propriety of its 7,500 target level nor its allocation of this staff among its newly proposed organizations. The 7,500 staffing target is a carryover from HUD's 1995 Reinvention Blueprint. We believe it is highly unlikely that two widely varying reform plans would call for a staff level of exactly the same size. Because HUD has not justified the propriety of its 7,500 staff target through an analysis of the Department's mission and projected workload, HUD management is unable to demonstrate that a staff of 7,500 will be able to carry out the Department's functions and activities.

The roots of HUD's recent transformation can be traced back to the Administration's

National Performance Review. In September 1993, NPR recommended that HUD eliminate its regional offices, consolidate its field office structure and reduce its workforce by 1,500 by the close of FY 1999. (In 1993, HUD's FTE staff totaled about 13,500.) In response to the NPR's recommendations, the Secretary issued his proposed streamlining plan for HUD in December 1993.

In March 1995, HUD issued its report entitled "HUD Reinvention: From Blueprint to Action." The report stated: "*Significant downsizing is anticipated, reducing HUD's current workforce of 12,000 today to fewer than 7,500 employees.*" The downsizing target was tied to HUD's plan to (1) consolidate 60 of its major programs into three performance-based funds: a Community Opportunity Fund, an Affordable Housing Fund, and a Housing Certificates for Families and Individuals Fund; (2) phase out the direct funding of public housing in favor of providing direct assistance to residents; and (3) bring homeownership within reach of more citizens by transforming FHA into a businesslike, government owned Federal Housing Corporation." In conjunction with these goals, HUD planned to reduce its field offices from 80 to 60.

The 7,500 downsizing target, apparently, was "best-guess" estimate of what the Congress and the Administration would buy off on. We were never furnished any methodological mission and workload analysis in support of this figure, and HUD was unable to demonstrate that a staff of 7,500 was adequate to accomplish its 1995 Reinvention Blueprint goals.

Although the House Appropriations Committee supported HUD's downsizing efforts, the Committee stated in its report on HUD's 1998 appropriations that the Department's reorganization "*...should not be accomplished merely for the sake of staff reduction, but should be done after careful study and review of the importance and level of business done at each field office.*"

HUD's staff numbered about 17,000 in 1980, and is in the process of being downsized to 7,500 by the year 2002. Although HUD was considerably more involved in public and assisted housing development in the early 1980's, we still cannot account for a staff reduction of 9,500 when compared to HUD's current and projected program workload, as well as its financial risk exposure. Since 1980, the number of HUD programs has increased by over 450 percent (from 54 to over 300), while HUD's staff will have been reduced by almost 56 percent (from 17,000 to 7,500).

HUD also has a substantial risk exposure in terms of its current budget and outlays, future subsidy outlays, FHA insurance in force, and Government National Mortgage Association guarantees. This risk exposure has been estimated to be as much as \$1 trillion. Therefore, while HUD may be among the smallest cabinet agencies in terms of staff size, it is among the top cabinet agencies when viewed from the standpoint of financial risk exposure.

In addition, some of HUD's workload may increase dramatically under its new reforms and organization, particularly in the public housing area. While some of HUD work can and will be contracted out, such work must still be monitored and evaluated by HUD staff. HUD is already relying heavily on contractors to perform studies, design systems, administer functions, and

develop plans and strategies; but HUD has made little effort to date to formally evaluate the effectiveness and cost-benefits of its contracted work. (See OIG Audit Report HUD Contracting" 97-PH-163-0001 issued September 30, 1997) Potential reliance on contractors as a means of supplanting HUD staff may not be in the best interests of HUD and the taxpayers.

Some Aspects of Plan Uncertain Due to their Tie to Future Legislation

Some of the Department's proposed reforms are dependent on the enactment of legislation. While HUD has proposed legislation to the Congress tied to its Reform Plan, the passage of this legislation is uncertain. In most cases, the House and Senate have also proposed related legislation which, in some cases, differs from HUD's proposals. If HUD's legislative proposals are not enacted or if legislation is enacted that differs significantly from HUD's proposals, this could undermine certain aspects of the Department's planned reforms, resulting in the need for HUD to reassess its planned staffing needs and redirect its reforms.

It is interesting to note that HUD's 1995 reinvention effort was also tied closely to the enactment of legislative reforms. These proposals were never enacted. In response to a question from the House Appropriations Committee regarding HUD's Reinvention Blueprint legislative proposals, the Department noted "*Our reduction in Salaries and Expenses staff to 7,500 in fiscal year 2000 is tied to the legislative proposals which provide the statutory basis of transition from the old program structure to the new. Without enactment of most of these proposals, reduction to 7,500 FTE will cripple HUD's operations.*"

Some of HUD's reforms that are tied to the enactment of legislation include:

- Program consolidations and streamlining (e.g. HOME Program, Homeless Programs, etc.).
- Automatically mandating judicial receivership for PHAs troubled for more than 1 year.
- Permanent extension of public housing deregulation efforts.
- Privatization of the HOPE VI Program.
- Establishment of a Public Housing Authority Evaluation Board.
- Conversion of the Public Housing Drug Elimination Program to a performance-based formula.
- Allocation of capital funds for small PHAs by formula.
- Reforming of the bankruptcy laws to prevent FHA multifamily property owners from evading enforcement actions.

- Permanent extension of FHA note sale authority.

HUD has already sent to the Congress its "Public Housing Management Reform Act of 1997," the "Housing 2020 Multifamily Management Reform Act of 1997," the "Homelessness Assistance and Management Reform Act of 1997," and the "Urban Empowerment Zones Partnership Act of 1997." With respect to the public housing area, both the House and Senate introduced and passed reform bills, but have not yet reached Conference agreement. Some of HUD's proposed legislative changes have been incorporated in both bills. On the multifamily housing front, the House passed mark-to-market legislation on October 8, 1997. Also, the House and Senate have introduced bills to consolidate HUD's programs for the homeless, but have not yet passed such legislation. HUD's Urban Empowerment Zones legislation has not yet been introduced.

Even if the above legislative reforms are enacted in the foreseeable future, it is not certain what form the legislation will take. The more the enacted legislation deviates from HUD's legislative proposals, the greater the impact on HUD's ability to implement its 2020 Reform Plan. To illustrate, the House's proposed "Housing Opportunity and Responsibility Act of 1997" (H.R. 2) provides for the establishment of a Housing Evaluation and Accreditation Board, which differs substantially from HUD's proposed Public Housing Authority Evaluation Board. The House's Board would have significant power and responsibilities, such as setting PHA performance standards and accrediting PHAs, whereas HUD's Board will primarily be an advisory body established to recommend ways to improve the Department's oversight and evaluation of PHAs. The Board would have no real powers. Enactment of the House's proposed Board, however, would create a powerful, independent entity, with PHA operating responsibilities. This could result in the need for HUD to alter the role of its public housing organizational units.

Cost-Benefit Analysis Not Performed Prior to Issuance of HUD's Reform Plan

Cost-benefit considerations were not an integral part of HUD's reform decisions. Consequently, there is no evidence that HUD's proposed programmatic and staffing changes will be in the best interests of the Federal Government and HUD's clients. Additionally, we believe a cost-benefit analysis of HUD's reforms is required under Section 7(p) of the Department of Housing and Urban Development Act. Because HUD did not document the basis and feasibility of its reform decisions up front, the Department is unable to fully justify and support its current organizational and program reforms.

Section 7(p) of the Department of Housing and Urban Development Act provides that any HUD field reorganization that meets three preconditions (specified in Section 7(p)), cannot take effect until 90 days after a cost-benefit analysis of the effects of the reorganization plan on each office involved is published in the Federal Register. This is known as the "Dole Amendment," and

was included in the Housing and Community Development Amendments of 1978.

In a June 27, 1997 memorandum to the Deputy Secretary, HUD's Acting General Counsel opined that the Dole Amendment is not applicable to HUD's Reform Plan, primarily because one of its three preconditions is not met, namely that the Department's reorganization plan will impact the availability, accessibility, and quality of services provided on behalf of recipients in local communities. However, in response to a September 8, 1997 memorandum from the Inspector General inquiring about the availability of such a cost-benefit analysis, the Acting General Counsel advised in a memorandum dated September 25, 1997, that although the Dole Amendment did not apply to HUD's Reform Plan, the Department would publish a cost-benefit analysis in keeping with the spirit of the Dole Amendment. HUD's cost-benefit analysis was contracted for under a Task Order, effective September 26, 1997.

In arriving at the June 27, 1997 opinion, the Acting General Counsel relied primarily on the Dole Amendment's legislative history. However, a fundamental maxim of statutory construction is that legislative history, generally, should only be considered when the statute's plain language is ambiguous. We did not find the Dole Amendment's terms ambiguous. Further, the June 27, 1997 opinion appears to conflict with a 1998 HUD legal opinion concerning a similar application of the Dole Amendment.

HUD's Reform Plan is an undertaking of major proportions. It entails significant downsizing and relocation of offices and staff, as well as reliance on private contractors to carry out HUD's business, not to mention its uncertain impact on the Department's clientele. Also, the sources of funding for aspects of HUD's reorganization are uncertain, indicating the importance of cost considerations in the reform planning process. Further, the initial development and assessment of HUD's Reform Plan took place without the benefit of a public comment or formalized internal and external consultation process. Therefore, the Plan's potential shortcomings were not fully considered and assessed. We seriously question the Department's rationale for proceeding with its Reform Plan without first performing an acceptable cost-benefit analysis of its planned reforms.

After publication of the Reform Plan in August 1997, the Conference Report on HUD's FY 1998 appropriations (House Report 105-297) was published on October 6, 1997. The Conference Report states that the Congress must be kept well-informed on how HUD's current reorganization plan is to be implemented, and how it will impact Congressionally mandated programs and affect services at the local level. Accordingly, the Conference Report directed HUD to provide the following information by January 15, 1998:

- A cost-benefit analysis of HUD's newly created offices, including the Assessment Center, the Section 8 Center, and the Enforcement Center.
- A schedule of events, i.e., rough estimate of the dates for implementation of the Reform Plan, including when HUD will undertake and complete significant actions (e.g., new

offices, staff moves, etc.).

- Upon submission of the President's Budget Request, the Department's annualized funding projections needed to carry out its management plan.
- An explanation of the modernization and integration of HUD's financial/management information systems and how the systems will develop internal controls and improve the Department's ability to monitor and measure program performance.
- An explanation of the resources (financial, information, staff) needed to effectively manage and operate HUD's core programs.
- HUD's legal analysis of the applicability of the Dole Amendment to the Department's reorganization plan.

The Conference Report further states that HUD is to take no "significant actions" that involve geographically relocating staff or entering into binding commitments for office space, as related to the three new proposed center locations (i.e., the Assessment Center, the Enforcement Center, and the Section 8 Center) until the Congress is provided with the information mentioned above. A contractor has been assembling the cost-benefit data for the Department.

Plan Does Not Go Far Enough in Improving Information Systems

Although we are encouraged by the HUD Reform Plan's initiative to integrate the Department's automated financial systems, the Plan fails to incorporate initiatives to reform the Department's program information systems. This could impede the effectiveness of HUD's financial systems integration effort. HUD's program information systems are important to this effort because these systems directly support the operations of the Department's programs and provide data for input into HUD's financial systems. Further, in designating HUD as a "high risk" area in January 1994, GAO cited the inadequacy of not only the Department's financial management systems, but also its information systems in general.

Any new integrated financial management system can only be as good as its input. Information for input into HUD's financial management systems originates largely in the Department's program information systems; however, these systems are highly suspect because they contain unreliable and erroneous data, or simply lack data needed to manage HUD programs. The Department's Section 8 Program systems, for example, do not provide adequate data on AHA reserve levels, average Section 8 per unit costs, contract renewals, and the status of funding. On the other hand, HUD's Indian Housing Program systems do not provide adequate data showing how and where Indian housing authorities are spending HUD program funds. Critical information is either lacking or is deficient in connection with other HUD program information systems as well.

Oftentimes, HUD has to perform periodic field surveys to update and ensure the integrity of the information in its program systems. In addition, HUD contractors engaged in evaluating HUD programs sometimes have to establish their own independent databases because they are unable to rely on the data in HUD's program information systems.

HUD needs to do more than just integrate its financial systems; it needs to improve all its information systems and ensure they work in a complementary fashion and provide the information HUD needs to properly administer its programs. Although HUD's Financial Systems Integration team has acknowledged that reforms are needed in its program information systems and that such reforms should be coordinated with HUD's financial system integration, the Department has not yet committed itself to such an effort. Rather, this effort is still in the planning stage.

Many Critical Human Resource Issues Remain to be Resolved

Critical human resource decisions may be prone to error because of the short completion timeframes. The pace of the reform's downsizing effort is driven by the lapse of HUD's buyout authority on December 30, 1997. The Department's current target for completing its reassignments and merit staffing is December 11, 1997. This would provide time for an additional buyout window in mid-December to help bring HUD closer to its 7,500 staff downsizing target.

HUD is faced with many difficult staff selection decisions within the next few months. The Department estimates that about 3,000 staff will be reassigned to new positions. Some staff will be reassigned to new positions because their current job is considered "substantially similar" to the newly created positions. These new positions have similar duties, critical elements, and qualifications, and can be performed by the employee with little loss in productivity. A major portion of these reassignments in the new HUD will be merit staffed. On October 14, 1997, vacancies were announced for the approximately 1,700 new positions in the centers and hubs. Because of the consolidation of functions, many of these new positions will require staff to relocate.

Employees are concerned that staff selections are made in a fair and equitable manner. Some staff were selected for substantially similar positions while others with comparable qualifications were not. These determinations were made by supervisors based on four criteria: experience, skills, education and training, and performance. Some employees have questioned the basis for these decisions since they felt their supervisors did not have full information to make such determinations. Because this process was expedited, there was no input from employees nor were personnel files reviewed. An expedited process will also be followed for merit staffing determinations. Because of the volume of merit staffing actions, final selections will be based on employee applications without employee interviews.

There may be a domino effect as a large number of staff apply for the numerous available

positions. New vacancies may open up as staff move to new positions. After merit staffing selections are made in mid-December, the Department will allow unplaced employees to volunteer for reassignment to positions that remain vacant in January 1998. The Secretary has recently announced that there will be no directed reassignments. This will make it even more difficult to fill positions in the new HUD and may adversely affect HUD's proposed centers. The Department might find itself in a position where outside hires may be needed to fill critical vacant positions. This further complicates HUD's ability to reach its 7,500 downsizing target. There are significant costs associated with such a major downsizing and reorganization effort; however, HUD has not yet developed a complete cost estimate of its reforms.

We noted that HUD's downsizing effort is moving forward even though the Department's organizational reform plans are still being revised.

Staff Downsizing Effort Resulting in a Loss of Technical Expertise

HUD's recent loss of mid- and senior-level staff and other experienced staff may seriously impair its ability to transition to a more effective Department. As of September 30, 1997, a total of 774 employees had accepted first-round buyouts from the Department, leaving HUD with a staff of about 9,100. A second round of buyouts is planned for December 1997. Many HUD's technical staff experts and mid- and senior-level managers have already left the Department, taking with them vast institutional knowledge and program expertise that cannot be easily replaced. The current round of buyouts comes on the heels of over 1,250 buyouts commencing in FY 1995.

The realization by field staff that their positions would be downsized or relocated under HUD's current reform process resulted in a flurry of buyout actions in affected locations. While the Reform Plan may take several years to complete, these recent buyouts will have an adverse impact on HUD's present workload. For example, the Arizona State Office lost 26 percent of its Housing staff, while the Alabama State Office lost 29 percent. These staff losses will have a severe impact on ongoing work.

In addition to our concern about the sufficiency of a 7,500 staff level, we are also concerned about the relative capacity of HUD's remaining staff to carry out their mission and responsibilities once reforms are in place. Not only is HUD losing significant staff expertise and managerial talent through downsizing, but many remaining staff members may be unfamiliar with their new positions. Thus, HUD may be faced with a lengthy transition period before staff is sufficiently trained and experienced to operate at full capacity.

While HUD has been able to cope with the loss of key personnel through normal retirements and attrition in the past, the current departure of so many key personnel at the same time will have an adverse impact on the Department's technical capacity. Although HUD's reform

measures entail an ambitious plan to train its employees, limited, short-term training can never supplant the institutional knowledge and expertise gained from years of experience. This lack of staff and expertise contributed to the HUD Scandal of the 1980's. In its final report on the HUD Section 8 Scandal, the Senate Committee on Banking, Housing and Urban Affairs noted *“At the civil service level, many believe (especially former employees) that there was a 'brain drain' during the 1980s that contributed to scandals.”*

Structure and Operating Plans for Overseeing Public Housing May be Difficult to Implement

Of all the organizational changes called for by HUD's Reform Plan, the public housing area appears to be the most significantly affected. HUD's new organizational structure and operating plans for overseeing the Public Housing Program and PHAs may be difficult to implement because they provide for assigning staff authority and responsibilities in a fragmented and overlapping manner. In addition, HUD has neither determined its potential public housing workload nor adequately assessed its related staffing needs under its new reforms.

Under HUD's new public housing organizational set-up, numerous organizational entities and staff positions will be involved in overseeing aspects of the Public Housing Program and PHAs. Some will be involved directly, while others will be involved in a more indirect manner. In addition to HUD headquarters units, these entities include the following field organizations:

- Public Housing Hubs
- Program Centers
- Area Offices
- Area Resource Centers
- Real Estate Assessment Center
- Section 8 Financial Management Center
- Two Troubled Agency Recovery Centers
- Grants Management Center
- Special Applications Center
- Public Housing Authority Evaluation Board

- Enforcement Center

Also, such positions as the Secretary's Representatives, Public Trust Officers, and Community Builders will be involved to varying degrees. Further, the HUD Reform Plan calls for the privatization of the HOPE VI Program, which will involve non-HUD entities in the program administration process.

The above entities involve numerous overlapping and interlocking relationships, and will require extensive coordination in carrying out their responsibilities. The lines of authority and responsibility between and among these entities could potentially be a source of confusion to PHAs, particularly given the planned geographical dispersion of the Department's centers and offices.

In addition, the autonomous nature of the key public housing centers is reinforced by different chains of command. As indicated in the following table, the management hierarchy for these centers differs widely.

Center	HQ Official Reporting To
Real Estate Assessment Center	Deputy Secretary
Troubled Agency Recovery Centers	Deputy Assistant Secretary for Troubled Agency Recovery, PIH
Grants Management Center	General Deputy Assistant Secretary PIH
Special Applications Center	Deputy Assistant Secretary for Public Housing Investments, PIH
Enforcement Center	Deputy Secretary

There are also many uncertainties regarding the potential workload of HUD's public housing organizational units and the deployment of staff to these units which HUD has not yet assessed. To illustrate, HUD is currently responsible for overseeing approximately 65 "troubled" PHAs. However, under its Reform Plan, HUD is proposing to revise its PHMAP system for evaluating PHAs by adding a new performance indicator to measure the physical quality of PHA's housing stock. According to HUD officials, this could increase the number of troubled PHAs to between 500 and 1,000, depending on how "housing quality" is scored under PHMAP. Not only will HUD's Troubled Agency Recovery Centers be faced with overseeing this large number of troubled PHAs, but HUD's Reform Plan also calls for placing any PHA that remains troubled for more than 1 year in receivership. Thus, one can easily see the potential impact of such a situation on HUD's limited staff. If there is doubt about HUD's capacity to oversee 65 troubled PHAs with its current staff, then there should be serious concern about its capacity to oversee 500 to 1,000 troubled PHAs and to accommodate a potentially large number of PHA receivership actions with a

substantially downsized staff.

In addition, under the Reform Plan, the Department will now be identifying and monitoring "marginally standard" PHAs, i.e., PHAs whose PHMAP scores fall within 10 points of the "troubled" cut-off point. This responsibility will fall on HUD's program centers and hubs. However, HUD has not projected the potential number of marginally standard PHAs; therefore, the staffing requirements in this area are unknown. Also, HUD's Real Estate Assessment Center may be involved in contracting with non-federal auditors and reviewing their audited confirmations of PHAs' performance under the Department's PHMAP. The Assessment Center will also be required to monitor all the contractors engaged in performing physical inspections of PHA properties. Further, HUD's program centers and hubs will be responsible for confirming two PHMAP performance indicators for all medium and large PHAs. All of these areas entail potentially significant staffing demands.

In conjunction with its reforms, HUD will also be implementing for the first time its new Section 8 Management Assessment Program to evaluate PHA performance in key Section 8 tenant-based assistance areas. This will be another addition to HUD's workload.

In addition to experiencing problems in determining workload and initial staffing needs, we believe that the Department will also be faced with the need to redeploy its staff from time to time to meet the unexpected workload demands of its public housing organizational units once its reforms are in place. This could prove difficult and disruptive to HUD's operations in the future, due primarily to the geographical dispersion of some of the Department's organizational entities, their limited staff resources, and the organizational autonomy of these units.

HUD's Community Builders' Concept Raises Questions

Given HUD's significant staff downsizing, management's decision to establish approximately 600 "Community Builder" positions raises several questions. Community Builders will serve as HUD's link to communities, and will be responsible for assisting communities in identifying their needs and coordinating the development and implementation of Integrated Service Delivery Plans. HUD's current plan is to staff about one-third of the 600 Community Builder positions nationwide with 2-year temporary employees. Community Builders will be required to have knowledge of the full range of HUD services and programs, in addition to having economic development skills. They will also need to have some working knowledge of non HUD program assistance that might be used in tandem with HUD assistance at the local level.

While this "front-door" access to community leaders might appear to be conceptually sound, in reality it may prove to be a daunting task. One reason is the sheer volume, diversity and complexity of HUD's programs. Whether these Community Builders can acquire adequate expertise in all of HUD's programs and activities remains to be seen. This could be a difficult task even in the event HUD undergoes major program consolidation, particularly for the 2-year

temporary Community Builders. If the Community Builders are unable to acquire program expertise, our concern is that these positions may do little to assist communities and further HUD's mission.

Another compelling reason for questioning the potential effectiveness of the Community Builders concept is the staff intensive nature of integrated services delivery. This was borne out by several HUD field offices, which earlier this year worked directly with communities to test the integrated services delivery concept. These task forces were comprised of experts in HUD's program areas. The resulting task force reports noted that this concept was very staff intensive. In addition, integrated services delivery is a profession in itself and requires considerable technical knowledge and ability.

Considering the thousands of communities HUD serves, it is questionable whether a staff of 600 Community Builders would have a significant impact on such communities. We also believe that Community Builders would need to engage in extensive coordination with HUD, due to their full array of program responsibilities. Further, the performance of Community Builders is impractical to evaluate since these positions are primarily involved in providing advice and guidance.

Also, in some respects, Community Builders might take on conflicting dual roles. In other words, they may be viewed as representing the communities they serve, in addition to representing HUD. We would expect that Community Builders would be identifying what communities need from HUD and would be involved in advising such communities how to obtain what they need from HUD. Therefore, depending on the capabilities and influence of particular Community Builders, these individuals may be in a position to unduly affect HUD's funding of certain communities. However, it is not clear how HUD's competitive and formula-based funding processes would be affected by the Integrated Service Delivery Plans and the roles of Community Builders.

Another concern is that HUD's Community Builder positions are being called upon to perform what, in many cases, are essentially "technical assistance" tasks, which the private sector is capable of providing. Also, the cost of performing integrated service delivery functions is likely an eligible cost, or can be made an eligible cost, under certain HUD grant programs.

Given the fact that the private sector can provide many of the same services as Community Builders, we question HUD's rationale for allocating 600 Community Builder positions out of its already scarce resources.

**Issues Affecting the Relationship Between OIG and HUD's
New Enforcement Center Still Being Resolved**

The establishment of HUD's new Enforcement Center initially called for providing

authority and responsibilities to the Enforcement Center that appeared to usurp the statutory authority and responsibilities of the OIG, particularly with respect to the conduct of criminal investigations. Not only would this situation violate the intent of the Inspector General Act, it would also lead to undue overlap, inefficiencies, and confusion in carrying out HUD's enforcement efforts. We are now engaged in a dialogue with HUD management and the Director of HUD's Enforcement Center to arrive at a satisfactory resolution to our concerns.

In several of our prior Semiannual Reports to the Congress, we expressed concern about HUD's lax program enforcement efforts. Based on audit and investigative reports and referrals, we reported that HUD was not always imposing sanctions against program abusers when warranted and, generally, was not enforcing its regulations and contractual agreements. Consequently, we called for HUD to take a more aggressive stand against fraud, waste, and abuse in its programs.

HUD's Reform Plan acknowledges the Department's dismal program enforcement record. In response, the Reform Plan provides for the establishment of an Enforcement Center. According to HUD's Reform Plan, the Enforcement Center will have authority to (1) contract with private sector investigators, auditors and attorneys; and (2) consult with the Department of Justice (DOJ), Federal Bureau of Investigation (FBI), and the Internal Revenue Service. The Center will initially focus on FHA subsidized multifamily housing, but will also have certain responsibilities for public housing and the tenant-based Section 8 Programs.

In July, a senior FBI Agent was detailed to HUD for an 18-month period to establish the Enforcement Center. In conjunction with the Enforcement Center's operations, DOJ agreed to (1) provide the Center with monthly reports on individuals and organizations charged with federal criminal and civil violations involving HUD programs; and (2) assign DOJ attorneys to HUD to assist the Center.

Although we are pleased to see an emphasis on aggressive enforcement initiatives in the Department, the Enforcement Center's proposed authority and responsibilities may be inconsistent with the Inspector General Act. The scope of the Enforcement Center's authority and responsibilities exceeds the scope of HUD program offices' traditional enforcement authority and responsibilities.

In a memorandum dated June 25, 1997, we advised the Secretary that the Department's intentions with respect to its proposed Enforcement Center were inconsistent with the legislative history of the Inspector General Act. As a follow-up to the Inspector General's June 25, 1997 memorandum, we entered into an agreement, which was jointly signed by HUD's Deputy Secretary and the Inspector General on September 12, 1997. One of the provisions of the agreement was that the OIG and the Department would work cooperatively in the design and implementation of the Enforcement Center.

Following the above agreement, we advised the Secretary, Deputy Secretary, and the Enforcement Center's Director by memorandum (September 18, 1997) of the principles that

should govern the relationship between the OIG and the Enforcement Center. These principles were as follows:

- Pursuant to the Inspector General Act of 1978, as amended, the OIG is the single focal point in HUD for the coordination of all Departmental efforts to deal with fraud, waste, and abuse in federal programs administered by the Department.
- In conformance with Section 7 of the Inspector General Act and existing HUD policy, allegations by any party of fraud, waste, abuse, and mismanagement relating to HUD programs/operations must be made directly to the OIG.
- The Enforcement Center must consult with the OIG on criminal, civil, or regulatory violations as soon as it comes across information indicating the potential for such violations. The OIG has the right of first refusal to follow up on any potential enforcement actions emanating from such violations.
- The OIG is responsible for all cases having criminal or civil fraud potential.
- In conducting audits and investigations the OIG operates independently, and makes both criminal and civil referrals directly to DOJ and the U.S. Attorneys, subject only to the civil referral notice provision contained in an agreement between the OIG and HUD's Office of General Counsel.
- HUD must exercise extreme caution and close collaboration with the OIG whenever it is contemplating the assignment of audit or investigative responsibilities outside the OIG.

The application of the above principles will leave the Enforcement Center with a large and complex workload comprised of enforcement cases requiring administrative or civil action not related to fraud.

In October, a dialogue was finally initiated between our office and the Director of HUD's new Enforcement Center. This dialogue is continuing, and we are hopeful that it will result in a satisfactory resolution of our concerns. We will continue to make every effort to work with HUD management to ensure a proper delineation of authority and responsibilities between our office and the Enforcement Center.

RECOMMENDATIONS

We recommend that you:

- A.** Extend the timeline for completion of HUD's reform efforts past September 30, 1998.
- B.** Suspend staffing and reorganization reforms until a cost-benefit analysis is completed, and it is clearly documented that the benefits to accrue from HUD's proposed reforms outweigh the costs that will be incurred.
- C.** Perform a more detailed analysis of HUD's diverse and complex mission by reviewing all major housing and community development statutes in effect and identifying common HUD functions and responsibilities.
- D.** Perform an analysis of the Department's projected workload under the Reform Plan, and request appropriate staffing to meet projected workload requirements. Such requirements should not be driven by arbitrarily derived staff ceilings.
- E.** Request an extension of HUD's buyout authority so that such authority will be available later on in the reorganization process, i.e., after HUD has had time to review the results of its cost-benefit, workload, and staffing analyses.
- F.** Reassess the extent to which the Department is relying on contractors under its Reform Plan. Prepare a report showing the functions to be performed under contract, the number of contractors that will be involved, and the cost/benefits of using contractors versus in-house staff.
- G.** Review the results of the Department's cost-benefit analyses, workload reviews, and any other reviews, and revise or redirect planned reforms, as necessary. Where appropriate, adjust the Department's planned reforms to ensure they do not significantly impact on the expected level and quality of services to be provided HUD clients.
- H.** Prepare a long range financial plan/budget to support estimated reform costs and funding needs.
- I.** Publish summaries of the final organizational reform plans in the Federal Register and request public comments, thereby permitting those most affected by HUD's reforms to participate formally in the reform process.

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