Strategic Assessment of HUD 2020 Reforms

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Summary

Over the past three years, the US Department of Housing and Urban Development (HUD) has pursued an ambitious set of management reforms aimed at transforming its once-antiquated bureaucracy into a customer-focused, performance-oriented organization.

These reforms – entitled HUD 2020 – are intended to rebuild and sustain the Department's capacity to fulfill its mission to "promote adequate and affordable housing, economic opportunity, and a suitable living environment free from discrimination."

In 1998, the Public Strategies Group (PSG) was asked to assess the HUD 2020 reform plan and its potential to tackle the myriad of management challenges facing HUD. These problems included:

- inadequate and unreliable information about the quality and location of HUD-financed properties;
- inconsistent and ineffective enforcement policies;
- a lack of useful performance information and accountability for results;
- a lack of sensible and timely procurement practices; and
- fragmented financial systems and information

After studying HUD's proposed reforms and its initial steps in launching HUD 2020, we declared it to be "a sound, well thought-out reform plan" and "one of the most ambitious, fundamental, and exciting reinvention plans in the recent history of the federal government."

This summer, HUD invited PSG back again, this time to assess the impact of the HUD 2020 reforms on customers, stakeholders, and employees and to identify opportunities for

strengthening and sustaining the reform effort. As part of its work, PSG interviewed key HUD executives, reviewed strategic and operational documents, conducted site visits to six local field offices, and interviewed dozens of employees, external partners, and beneficiaries of HUD programs.

Key Findings of Positive Progress

(1) The pace and breadth of the HUD reform effort has been astonishing. Essentially every part of the organization has been significantly and positively impacted in some way.

HUD has accomplished many of the bold plans that it set out to achieve under HUD 2020. A new system for independently assessing thousands of HUD-supported housing properties was designed and implemented in one year, where no such information existed before. A corps of several hundred Community Builders has been employed and almost a dozen new "storefront" offices built in an effort to radically change the "face of HUD" to communities. Key processing functions such as FHA mortgage endorsements have been centralized and automated in the interest of improving efficiencies and consistency. A dedicated Enforcement Center is sending a clear message that flagrant non-compliance with HUD regulations and attempts at defrauding the system will not be tolerated. The Department has developed a robust performance management system that aligns its strategic plan, annual performance plan, and business operating plans around HUD's six strategic goals. It has also integrated these performance objectives into the annual ratings of executives, managers, and supervisors. All of this (and much more) in three short years.

(2) HUD is providing local communities with a new model of customer service and creating powerful partnerships that bring together the assets of both HUD and communities to improve housing and economic opportunities.

Across the country, HUD is beginning to fundamentally change the ways that individuals, organizations, and communities access HUD resources. Community Builders give HUD customers whose needs reach across multiple program areas a single point of contact at the local level. In a dozen cities, HUD has created storefront offices that provide a more welcoming, user-friendly environment than traditional government offices. The Department has also deployed electronic touch-screen kiosks that enable citizens to walk up and obtain information on HUD services at their convenience.

(3) The Department is restoring the public's trust in HUD's ability to effectively spend taxpayer dollars and carry out its mission with the minimum of fraud, waste, and abuse.

By creating the service-oriented Community Builder function, HUD has freed up its Public Trust Officers to work exclusively on ensuring that Federal funds are used in compliance with laws and regulations. Public Trust Officers administer program grant competitions and oversee program operations. In addition, they are carrying out critical new initiatives designed to eliminate monitoring and oversight weaknesses.

(4) HUD has completed the first-ever nationwide assessment of its multifamily inventory and is developing a new, post-bureaucratic approach for the management of that inventory.

The new Real Estate Assessment Center (REAC) is using the information gathered from this assessment to motivate improved performance by property owners. Rather than using a traditional one-size-fits-all approach, HUD is tailoring its regulatory response based on a property's assessment score. The Department is rewarding high-performing properties by reducing the frequency of inspections, providing technical assistance to low-performing properties, and referring flagrantly non-compliant properties to the Department's new Enforcement Center. REAC has also taken the lead in introducing sound assessment practices in the public housing arena for the first time ever and in

implementing a large-scale tenant income matching system to ensure that residents are receiving the proper rent subsidy based on their income.

(5) The Department's new Enforcement Center has made tremendous progress in restoring credibility to HUD's efforts to take action against property owners who violate laws and regulations.

The Enforcement Center has recovered $40 million in civil penalties and settlements from property owners in the past two years. It has also increased suspensions and debarments of individuals who have been found to be violating HUD rules and regulations. Perhaps most importantly, the Enforcement Center has pushed property owners to invest tens of millions of dollars to restore more than 50,000 housing units to decent, safe, and sanitary conditions. Indeed, it has been so successful that the Department of Agriculture has – with assistance from HUD staff – implemented a similar model in its agency.

(6) HUD has streamlined its processing operations by consolidating these functions into centers.

The Department's four Homeownership Centers focus on handling FHA endorsements and have succeeded in shortened a process that just a few years ago took 4 to 6 weeks into one that today is handled in an average of two to three days. HUD's two Troubled Agency Recovery Centers (TARCs) assist failing public housing agencies in correcting major physical, financial, and management deficiencies. The Section 8 Financial Management Center is working to resolve funding discrepancies, ensure consistent application of regulations and procedures, reduce the incidence of missed payments, and improve accountability for program dollars.

(7) HUD has made the application of innovative technology a centerpiece of its reform efforts.

The Department's web site has won numerous awards and accolades from its users and has become a pioneer among federal agencies in how to put useful information in the hands of customers and stakeholders. The Enforcement Center uses document imaging to make it possible to transmit important materials to workers in multiple locations. The Real Estate Assessment Center is placing handheld assessment devices in the hands of its inspectors. HUD has also adopted an IT capital planning process that has been recognized by OMB as a leader among federal agencies.

(8) The Department now has a multi-year vision and implementation plan for the modernization of its financial management system.

The myriad of problems that HUD historically faced in the area of financial management is legendary, including 89 separate non-integrated program-specific systems and the lack of a single HUD-wide general ledger. HUD has already begun to put its financial house in order as evidenced by its first-ever "clean" audit from the Inspector General on its FY1998 financial statements. Perhaps more importantly, the Department has designed a blueprint for the modernization of its financial management system. This plan has garnered support from both GAO and OMB, which will be critical to HUD's successful implementation of this effort.

(9) HUD has made major strides in significantly improving its procurement practices.

HUD has implemented critical components of a model procurement system. This includes the appointment of a Chief Procurement Officer, the creation of a Contract Management Review Board to review contracts over $1 million, certification and training of Government Technical Representatives (GTRs), and greater use of GSA schedule contracts.

In short, HUD has simultaneously pursued multiple far-reaching reforms that are radically transforming the way that the Department does business. As one person said to us, "we have ripped apart the fabric that was the old HUD and re-assembled it into a completely new and better piece of clothing." We couldn't agree more and, in keeping with the metaphor, we have offered some recommendations on how to reinforce the stitching so that HUD will continue to improve and build a garment that can adapt to the ever-changing demands of the communities it serves.

In our experience, public-sector reinvention on this scale takes at least 5 years before the systems, behavioral, and cultural changes yield dramatic improvements in performance throughout the organization. We are convinced that HUD has created a powerful and rock-solid foundation of reform. But, there are still critical refinements and adjustments that must be made to ensure the continual improvement and ultimate sustainability of these reforms. In our full report, we have presented our recommendations under each of the major components of HUD 2020. We have summarized and highlighted a few of them below.

Recommendations to Strengthen the Reform Effort

First, HUD should continue to invest in strengthening its performance management system. The Department has made tremendous strides in the past three years and has evolved its practices in very important ways. Because of that success, we believe that HUD is ready to take its performance management efforts to the next level. This would include creating explicit and measurable customer service standards and redress policies for both internal and external customers, introducing more outcome and customer-oriented measures into its business operating plans, creating greater accountability around its internal service agreements, and making performance information meaningful to employees and stakeholders through the use of electronic performance "dashboards."

Second, HUD should delegate greater authority and decisionmaking to the local field offices. We understand that HUD needed to centralize many decisions and resources to "get its house in order." The Department now has in place accountability systems that far exceed what it ever had before. Therefore, HUD should capture the return from this investment by now aligning comparable authority with the accountability that it has placed in the field. In particular, we recommend that HUD transfer additional control over local program decisions out of headquarters and into local field offices. In addition, HUD should explore ways to give field office managers greater authority over personnel decisions and budget resources.

Third, HUD should reinforce its existing efforts to include its external partners and customers in the continual redesign and refinement of HUD programs and systems. An excellent example of this has been the Department's involvement of the multifamily housing industry in the Multifamily Accelerated Processing (MAP) initiative. This recently launched program strives to make HUD's application process much timelier and less burdensome to prospective developers and lenders. We believe this kind of outreach needs to become even more of a habit at HUD in such areas as the development of new information systems, the grants application processes (especially for smaller grantees), and the creation of local field office goals and strategies.

Fourth, HUD should find new ways to promote meaningful dialogue with and among its workforce. For the last three years, HUD employees have made tremendous efforts and, in some cases, personal sacrifices to help make HUD 2020 a reality. Many are excited and inspired by the challenge of reinventing HUD. Many others are experiencing the fatigue and frustration that often accompany a massive change process like HUD 2020. These employees still believe in the HUD mission and many recognize that HUD needs to find new ways to deliver better results. They also want the opportunity to help in the creation of those strategies and to challenge them if they believe there is an approach that will improve the intended outcome. We believe that HUD should move expeditiously to create face-to-face dialogues across the organization

to help channel all this energy into a more positive, collaborative focus on how to improve HUD's future.

Conclusion

In 1998, we produced six findings based on our review of HUD's management reform plan:

- The greatest strength of HUD 2020 is that it achieves a mission clarity that many public organizations fail to achieve.
- HUD 2020, when fully implemented, should provide dramatically better customer service.
- HUD 2020, when implemented, should significantly enhance the agency's ability to protect the public trust.
- HUD 2020 should, when fully implemented, fundamentally fix the Department's basic systems.
- HUD 2020 has begun to foster a sense of innovation, entrepreneurship, and cutting-edge technology more characteristic of a private company than a public organization.
- HUD 2020 as implemented can be a model for other agencies.

We believe that these findings remain relevant today and that HUD has made tremendous progress across the Department in making these plans a reality. HUD's charge now is to stay on the course set by HUD 2020 and continue to refine and improve its management plans to meet future challenges.

That is why we urge the Department to move forward expeditiously on our recommendations regarding how to strengthen and institutionalize these reforms. HUD should not let the inertia that typically accompanies a transition in administration slow down its reform efforts. We believe that a large percentage of these recommendations

can be addressed in the next few months. We also believe that much of this requires managerial work rather than policy changes. We hope HUD does not let pass this excellent opportunity to solidify and enhance what it has already accomplished.

The need for HUD to be the kind of effective, customer-oriented, and performance-focused organization envisioned under HUD 2020 is even more pronounced today. Even as homeownership rates increase, the gap between the demand for and supply of affordable housing is still too wide. HUD employees should be proud of the work they have done to implement the HUD 2020 reforms in such a short period of time. They have helped turn HUD around from an organization that many believed could not be trusted with scarce tax dollars to one that has improved the results it delivers to citizens. Their continued energy, new ideas, and passion for HUD's mission will be critical as the Department pursues further refinements and adjustments to what is already an impressive list of accomplishments. Building on the progress made to date and the recommendations set forth in this report, HUD is well-positioned to deliver on the original promise of the agency in the 21st century.

Strategic Assessment of HUD 2020 Reforms

<u>Introduction</u>

The US Department of Housing and Urban Development (HUD) has a 35-year history marked by repeated criticism as the epitome of inefficient, bureaucratic government. The agency's credibility and integrity were called into serious question following a period of corruption scandals during the 1980s. Reports by the General Accounting Office and Congress focused on alleged mismanagement at HUD. By most accounts, HUD's financial and information systems failed to provide the fundamental data needed to manage the vast portfolio of HUD-supported properties or the Department's own performance. Not surprisingly, HUD was unable to take the kind of consistent and effective enforcement actions that would deter the fraudulent use of HUD resources. And worst of all, the Department's face to the communities and customers it was meant to serve was often one of bureaucracy rather than service. If you called HUD with a problem, you were likely to get a form in return.

All of this left HUD with a culture of stagnation, hierarchy, paternalism, and red tape— and a Congress bent on its elimination. The message was clear: if HUD were not fundamentally reformed, in a short time, the very existence of the agency was at risk.

In 1997, the Department developed and launched a management reform strategy designed to fundamentally reinvent itself from the ground-up. The HUD 2020 Management Reform plan sought to refocus HUD's mission, reorganize and consolidate HUD's operations, improve customer service, infuse HUD with new talent, implement new management controls, install new technology, and get tough on non-compliance. It was a strategy that required an extraordinary amount of discipline and focus. But it was HUD's only choice, and perhaps last chance, to rebuild its credibility and make itself relevant in the lives of communities and families.

In the spring of 1998, The Public Strategies Group (PSG) was asked by HUD to assess the HUD 2020 reform plan. In our report, published in May 1998, we praised the approaches that HUD had chosen to reinvent itself and made some recommendations on how to strengthen its reforms even further. In that document, we stated:

> *If HUD continues down the road it is going today—and continues to refine its strategy along the lines suggested in this report—the agency that was a symbol for government scandal in the 1980s could very well be a model for reinvention in the 1990s. In the process, it could write one of the great reinvention stories of recent history.*

This summer, HUD asked us to return and address two important questions:

1) What has been the impact of the HUD 2020 reform efforts on the agency's customers, partners, employees, and other stakeholders?

2) How can the Department work to ensure that these efforts are both strengthened and institutionalized over time, thereby creating a powerful and lasting legacy of reform?

We found that HUD has accomplished many of the bold plans that its leaders set out to achieve under HUD 2020. Indeed, the breadth of the change effort and the speed with which many of the change strategies have been pursued is astonishing. A new system for independently assessing thousands of HUD-supported housing properties was designed and implemented in one year, where no such information existed before. A corps of several hundred Community Builders has been employed and almost a dozen new "storefront" offices built in an effort to radically change the "face of HUD" to communities. Key processing functions such as FHA mortgage endorsements have been centralized and automated in the interest of improving efficiencies and consistency. A dedicated Enforcement Center is sending a clear message that flagrant non-compliance with HUD regulations and attempts at defrauding the system will not be tolerated. Because of the Enforcement Center's efforts, property owners have invested millions of dollars to renovate and restore the condition of their affordable housing units.

Moreover, most of the HUD employees and stakeholders we interviewed continue to be supportive of the intent and direction of the change laid out in HUD 2020. They recognize that saving HUD from Congressional elimination required a drastic change, including reductions in the size of the HUD workforce. Most understand that making HUD an effective, positive force in this country's communities requires the kind of transformation that HUD is undertaking.

In our experience, public-sector reinvention on this scale takes at least 5 years before the systems, behavioral, and cultural changes yield dramatic improvements in performance throughout the organization. We are convinced that HUD has created a powerful and rock-solid foundation of reform. Of course, as we would expect, HUD employees and external stakeholders are experiencing the kinds of anxiety, frustration, and other symptoms that typically accompany this kind of change – especially when the scope is so large and the pace so fast. They can be quick to point out gaps in performance even though today's performance exceeds that of a few years ago. Most are eager to work on solutions that will correct these gaps and help keep HUD moving forward. They are looking for additional opportunities to be empowered in that endeavor.

Another challenge that HUD is wrestling with in its implementation efforts is how to help the existing workforce adjust from the traditional, bureaucratic management approaches of the past to new, post-bureaucratic strategies. That transition is happening slowly in some areas, but not because of bad intentions. Many people just don't know how to manage in this new environment. The result is a pervasive tension between centralized control and local empowerment, a perceived lack of flexibility and authority among front-line staff, and a strong focus inward rather than outward (i.e., what's the impact on us versus what's the impact on our customers and partners?).

Finally, while HUD avoided the Congressional chopping block, it faces another, sometimes less visible threat. Government agencies everywhere are struggling with how,

in an era of rapidly rising citizen expectations, they can become flexible and responsive enough to remain relevant and meaningful to those they exist to serve. The sources of competition to government provision of public services are growing every day. In HUD's case, the challenge lies in minimizing the administrative and time burdens that its programs place on the Department's existing and prospective partners.

HUD appears to be responding to this challenge through such strategies as its recent streamlining of its multifamily housing application process and its decision to give FHA-approved lenders real-time secure access to several of FHA's mainframe systems over the Internet. However, we also heard from several stakeholders, such as non-profits, local governments, lenders, and developers, that they and others are beginning to turn to alternative sources of financing and support for their affordable housing and community development projects. They attribute these decisions mostly to the burden of HUD regulations and what they consider to be HUD's lack of creativity and responsiveness. We encourage HUD to continue to work on these issues so that it can remain relevant and add value to communities in the 21st century.

Findings and Recommendations

Our report is organized around the key elements of the HUD 2020 reform plan – as well as several more general topics related to the state of the reform effort. In each area we have presented 1) a summary of our initial impressions of the strategy back in May 1998, 2) an identification of the progress that HUD has made to date, and 3) our suggestions for the improvement and refinement of that strategy as HUD moves forward.

Performance Management: HUD has built the foundations of a sound accountability system.

What PSG Found in 1998

Prior to HUD 2020, HUD was like many government agencies: it had no system in place to set goals, measure performance, and report on its results. Within the organization, there was little tracking of and certainly no accountability for results that citizens cared about. Under the mandate of the Government Performance and Results Act (GPRA) and HUD 2020's new vision of a performance-oriented organization, the Department began a significant effort to create an integrated performance management system that would align employee accountability with the agency's program- and mission-related goals.

In our 1998 report, we affirmed HUD's intentions to develop a new "pass/fail" performance appraisal system and to tie performance awards to the achievement of agency goals. We also recommended that HUD strengthen its performance management efforts in a number of ways. Specifically, we recommended that it:

- develop performance measures that were outcome-oriented and reflected results that mattered to customers, in addition to the internal process measures commonly developed by government organizations;
- make performance information visible and meaningful to employees; and
- strengthen accountability of organizational units to their internal and/or external customers through service agreements, service standards, and redress policies.

HUD's Positive Progress to Date

HUD has established a sound performance management system and invested in continually improving it. The Department's Strategic Plan, Annual Performance Plan (APP) and Business Operating Plans (BOP) are aligned around the Department's five outcome-oriented strategic goals. These goals, which have been affirmed by Congress and OMB, are:

- Increase the availability of decent, safe, and affordable housing.
- Ensure equal opportunity in housing.
- Promote housing stability, self-sufficiency, and asset development of families and individuals.

- Improve community quality of life and economic vitality.

- Ensure public trust in HUD.

In recognition of the importance of its partnerships with its stakeholders, HUD has undertaken an extensive consultation effort as part of the development of its most recent Strategic Plan (2001-06). The Department solicited and received comments through national stakeholder consultation meetings, regional forums with community development leaders, specific requests for comment from key national partners, meetings with Congressional staff, and HUD's web site and intranet.

The GAO – a longtime critic of HUD's lack of performance accountability – last year cited HUD for making significant improvements to its Annual Performance Plan. These improvements included the use of outcome-oriented goals and measures, identification of HUD's coordination activities with other agencies, and identification of the budget accounts that the Department is using to support the achievement of particular goals and strategies.

In addition to the strategic goals and objectives of the Annual Performance Plan, HUD has instituted Business and Operating Plans (BOPs). The BOP is an annual plan for each program area and field office defining the activities and products necessary to support HUD's broader goals and objectives. In our interviews, we found that the BOP has been embraced strongly in many parts of the organization; people in those areas appear to take accountability for performance seriously. For example, some field offices have regular meetings to discuss their performance against the BOP goals. Even some external stakeholders that we interviewed noticed a difference, commenting on the flurry of activity at the end of the fiscal year as HUD employees try to meet their annual goals. Moreover, we were encouraged to see that the BOP process has gone through evolutionary changes over the past three years, which demonstrates some applied learning.

HUD has also wisely invested in the creation of a web-based system on HUD's intranet that enables managers and employees to track year-to-date progress against the BOP goals. We believe that this is an important tool for everyone in the organization to see how they – and other offices – are performing.

Finally, we are very encouraged to see that HUD has integrated the BOP goals into the executive, manager, and supervisory evaluation processes. Beginning last fiscal year, a portion of a manager's rating under the Performance Accountability and Communications System (PACS) is now directly related to the level of his or her performance against the objectives established in the BOP. We believe that this is an important step in making the BOP an accountability tool.

Opportunities for Strengthening and Sustaining Reform at HUD

Introduce more outcome- and customer-oriented performance measures: Like all government agencies that are learning the ropes of performance management, HUD should continue its ongoing refinement and improvement of its performance measures in the APP and BOP. Many of the performance measures in the BOP are still heavily focused on outputs and activities rather than outcomes for customers. There is a particular lack of both customer/partner satisfaction data and information on the timeliness of processing – something of particular value to HUD customers. We believe that HUD has accumulated enough performance management experience to go to the next level and expand its BOP goals beyond the activities and outputs currently measured. BOPs should have a mix of outcome and output goals. This would include holding organizational units accountable for measures such as internal and/or external customer satisfaction, response times, and service quality. If HUD decides to follow this path, we strongly encourage it to replace some of its existing performance indicators with these new measures, rather than simply adding them to an already sizeable list of indicators.

<u>Make performance information more meaningful to employees and stakeholders</u>: We found that the focus on performance information varied widely in the field offices that we visited, with some employees unaware of the existence of this data. HUD has taken an important first step by creating on-line access to the BOP data through the Department's intranet. However, we did not observe many other tools to keep staff focused on goals, such as tracking performance progress in visible ways within the office. One opportunity is for HUD to create a virtual "dashboard" of key HUD indicators. This dashboard could be something that "pops up" on each person's computer screen when they log on. It could be designed to show both HUD-wide performance information as well as performance information specific to that employee's field office, center, hub, and/or program area. This dashboard should not include all of the goals and measures, but rather a few key ones that the Department as a whole (or an individual field office) has chosen to focus on for the year.

<u>Share information on local field office goals with community partners</u>: We encountered great interest in discussing goals with field offices among local government officials, industry partners, and non-profit executives to engage with field offices on their goal setting. We believe that HUD's efforts to involve these partners at the front end of the BOP process through its Community Consultations are important and necessary steps to more squarely focus local goals and objectives on what the community needs rather than just what HUD thinks it needs. HUD needs to continue this two-way communication by sharing its local BOP plans with these partners once they are completed and providing them with regular updates on HUD's performance against those goals. We believe that this will improve local stakeholders' appreciation for what HUD is trying to accomplish and generate greater willingness to help the field offices reach their objectives.

Real Estate Assessment Center: **HUD's assessment system is providing the Department with the critical information it needs to manage its portfolio effectively.**

What PSG Found in 1998

HUD is responsible for a portfolio of some three million rental apartments nationwide. Prior to the HUD 2020 reforms, HUD possessed no reliable information about the condition of its housing portfolio for both its multifamily operation as well as its public housing projects. Not only did this prevent HUD from vigorously pursuing property owners who failed to properly maintain these properties; even more fundamentally, it prevented the Department from managing effectively its large and widely dispersed asset base. Without a viable physical inspection system, HUD had no effective way to track whether the families living in HUD-subsidized or insured properties were living in decent, safe, and sanitary conditions.

Prior to 2020 reforms, the management of this enormous asset – while a common function to both the Office of Public and Indian Housing and the Office of Housing – had operated independently under separate real estate management portfolios. The roles and responsibilities of both HUD field office staff and headquarters had been unclear, poorly articulated and often contradictory – with assessment responsibilities carried out in 50 different offices with 50 different sets of management and 50 different authorizations processes. This made it difficult to track which properties were deteriorating, which owners were experiencing financial difficulty, and where fraud, waste and abuse was taking place. And there was little or now way of monitoring the quality of life for the residents – HUD's principal clients.

In our 1998 report, we were very encouraged by HUD's plan to establish the Real Estate Assessment Center as the single point for inventorying, inspecting, and classifying all of

the properties in which HUD has a financial interest. In particular, we commended HUD's intention to:

- perform – in one year – the first nationwide inspection of all its properties;
- use cutting-edge technology (especially for a government agency) in the assessment process;
- assess the satisfaction of public housing residents; and
- adopt a "winning compliance" approach by providing technical assistance to low-scoring housing authorities and referring persistent or flagrant non-compliers to the Enforcement Center.

HUD's Positive Progress to Date

The Real Estate Assessment Center (REAC) has provided HUD with the kind of information that makes its entire vision of a reinvented HUD possible. REAC has introduced objective, quantifiable measurement into the assessment of HUD-supported properties. HUD now not only knows where the properties it supports are all located (a major advance beyond where HUD was a few years ago) but also has a much better understanding of these properties' physical and financial conditions, the management capability of their owners, and, in the case of public housing, the satisfaction of their residents. This is a remarkable turnaround and puts HUD in a strong position to win back the public's trust.

We have been impressed by the aggressive timeframe in which REAC has implemented the new assessment system. In just over a year's time, REAC has:

- completed the first-ever physical inspection of all 29,000 HUD-assisted multifamily housing properties;
- assessed more than 27,000 financial statement submissions from multifamily housing project owners for potential financial risks;
- calculated comprehensive advisory assessment scores for more than 3,000 Public Housing Authorities;

- produced financial assessment advisory scores for 3,000 Public Housing Authorities;
- conducted a satisfaction survey of more than 250,000 public housing residents, with close to a 50% response rate (89% of those responding indicated that they were "satisfied" or "very satisfied" with their living conditions); and
- began implementation of a large-scale program to match tenant-reported income with other federal tax data to detect and deter under-reporting of tenant income.

REAC has accomplished this set of achievements by developing and applying cutting-edge technology, which is attracting attention from other organizations, both public and private. REAC inspectors use hand-held tools to enter appraisal data and then download it through the Internet to centralized databases. Property owners have access to their scores within 24 hours, through the Web. Because the new system relies so heavily on technology, REAC has also worked hard to provide technical assistance to property owners and housing authorities to help them become, in REAC's words, "e-literate." It has provided training and other forms of technical assistance on how to interact with this new system.

While we admire the comprehensiveness, pace, and innovation of these efforts, we are perhaps most excited about how HUD is using this assessment data as a regulatory tool to reward high performers and sanction poor performers. First, the Department is rewarding good performance by multifamily property owners, by reducing the frequency of inspections for those that score well on their assessments. Those properties scoring in the top 20 percent will not face another inspection for three years; the next 30 percent will be inspected biennially. The remaining 50 percent will receive annual inspections.

HUD is also making poor performance consequential by requiring owners whose multifamily properties score below 60 on a 100-point scale (11 percent of all properties in the initial assessment) to develop and submit an improvement plan to the Multifamily Housing hub office that serves that area. Properties that score below 30 (1.5 percent, or

530 complexes, in the initial assessment) are referred to the Enforcement Center for remedial action.

Opportunities for Strengthening and Sustaining Reform at HUD

Make REAC assessment data more accessible to field offices: Field office staff interviewed during this assessment believe they can be much more effective at improving the quality of the properties in their jurisdiction if they can use the REAC data to understand the specific deficiencies identified through the physical inspections. With that information, they can tailor their assistance to property owners to address the most compelling problems, thereby perhaps preventing a future referral to the Enforcement Center. We believe that HUD should move quickly to enable field office staff to access detailed assessment information from REAC via the Internet. Such information will be new to field staff, and many may need help understanding how to use it. Therefore, REAC will need to support this effort with some training and possibly ongoing technical assistance – just as it did with the property owners and public housing authorities. In addition, HUD should also allow property owners to access their complete assessment results beyond just their overall scores. We heard from many property owners that doing so would be useful to them in improving the conditions of their properties.

Streamline the appeals process: In our interviews with multifamily property owners in the field, we encountered frustration among some of them regarding the quality of the inspections and the process to appeal assessment scores. Some of this frustration may be a natural reaction to HUD's shift from self-assessment to outside assessment; some of it may be legitimate. In either case, HUD should take steps to reach out to these stakeholders and repair these relationships so that this important feature of the HUD 2020 reforms can reach its full potential. One excellent opportunity is to streamline the appeals process, so property owners who believe they have received an inappropriately low score can get their questions and concerns answered in a timely and professional manner and incorrect scores can be adjusted accordingly.

Refine the resource allocation and accountability system for REAC (and the Enforcement Center): REAC and the Enforcement Center are at the center of the Department's strategy for ensuring accountability for safe, quality housing. However, from a budgetary perspective, they are dependent upon the Offices of Housing and Public and Indian Housing. They do not have their own budget to manage; they constantly have to work through a difficult and inefficient process to compete for resources. We encourage HUD to establish both REAC and the Enforcement Center as separately budgeted units with very clear performance requirements. Housing and PIH should drive these performance expectations, as they are the primary users of the information and enforcement activities that these two units deliver.

Departmental Enforcement Center: HUD is making tremendous progress in restoring its credibility and cracking down on non-compliance with HUD regulations.

What PSG Found in 1998

One of HUD's primary challenges in restoring the public trust was to tackle the waste, fraud, and abuse in its portfolio of millions of housing units. Prior to HUD 2020, enforcement at HUD was not a centralized function. Each of HUD's program offices – Public and Indian Housing (PIH), the Office of Housing, Fair Housing and Equal Opportunity (FHEO), and Community Planning and Development (CPD) – were operating independent enforcement functions, with different standards and procedures and often minimal effectiveness.

In our 1998 report, we recognized that the creation of a centralized, dedicated Departmental Enforcement Center (DEC) was a critical strategy for HUD to:

- consolidate widely scattered and inconsistent enforcement practices;

- bring new credibility and impact to HUD's enforcement efforts; and

- enhance critical partnerships with the Justice Department.

<u>HUD's Positive Progress to Date</u>

The Enforcement Center – with five satellite offices across the country – is fully operational and, in just a few short years, has produced some impressive results. These include:

- $40 million in assessed settlements and recoveries.

- Initiation of 36 foreclosures.

- Replacement of 20 management agents.

- Closure on over 850 referrals from REAC and other sources of non-performing multifamily properties.

This kind of performance sends an important message to external stakeholders that HUD is serious about holding non-compliers accountable.

We were encouraged by the attitude of senior Enforcement Center officials. They see the organization's role as working with property owners if possible to "restore properties to a better condition" versus simply "going after bad guys and punishing them." Toward that end, the Enforcement Center has pushed property owners over the past 18 months to restore more than 50,000 housing units to decent, safe, and sanitary conditions. The result has been $40 million in owner improvements to properties.

The Enforcement Center has also played a major role in the effort to revitalize the Mortgagee Review Board. The Mortgagee Review Board was established to protect FHA insurance funds by issuing administrative sanctions and civil money penalties in cases where FHA-approved Title I and Title II mortgage lenders have committed fraud and abuse and/or violated HUD regulations. The long-time backlog of cases before the Board has been attacked aggressively and was temporarily eliminated. The processing time for cases has been cut in half, and there has been an increase in the recovery of administrative and civil penalties – with over $32 million collected in the past 18 months.

HUD's partnership with the Justice Department appears to be stronger – as evidenced by more effective referrals, improved coordination on settlement agreements and debarments, and greater information sharing on the latest trends and developments.

The Enforcement Center appears to embrace the kind of collaboration that is envisioned in the Team HUD concept. The Enforcement Center leadership sees its mission as adding value to field office staff, especially to directors of the eighteen Multi-Family Housing Hubs. The Enforcement Center creates teams that combine its own staff with Multi-Family staff. The Enforcement team leader and the Multi-Family Hub director must jointly sign off on remedial action plans for poorly performing properties.

We were impressed with how the Enforcement Center handled the slow start-up that resulted from the simultaneous launch of REAC, upon whom the Enforcement Center relies heavily for referrals. The Enforcement Center leadership took advantage of the initial lull in workload to focus on staff development and the creation of protocols. These early efforts were particularly important, because some of those initially transferred into the Enforcement Center in the reorganization had little directly relevant experience. This kind of entrepreneurial spirit is a great example of what HUD can and must become to succeed as a reinvented organization.

Opportunities for Strengthening and Sustaining Reform at HUD

Equip the Enforcement Center with more compliance tools: With these early successes under its belt and increasing credibility within the Department, we believe that the Enforcement Center could be granted greater authority from the Office of Housing to levy civil penalties against non-compliers in other areas. Another tool that could be granted to the Enforcement Center is the Accelerated Civil Enforcement Authority. Currently in use by the Justice Department, this authority would enable the Enforcement Center to use 3

percent of the amount of recovered penalties to invest in its operation or – even more importantly – to help restore the condition of the referred properties.

Focus on making seamless hand-offs to and from the Enforcement Center: As with any new function like the Enforcement Center, the hand-offs that occur between and among different organizational units can be challenging. For example, in our site visits, we heard anecdotes about multi-family housing owners receiving a failing REAC score and being transferred to the Enforcement Center, which later determined through follow-up inspection that the score was inappropriately low. Acting as an appropriate check on the system, the Enforcement Center indicated to the owner that the problem should and would be corrected. However, these property owners complained that the process of "making things right" was excessively slow. We encourage HUD to take a close look at these kinds of situations (we like to call them "moments of truth"). It could, for example, pull together a focus group of affected owners to learn what improvements should be made to the process. This kind of responsiveness to the concerns of those trying to comply with HUD regulations and standards will go a long way towards winning over potentially skeptical stakeholders.

Community Builders: HUD's agents of customer service are making positive contributions in the communities they serve.

What PSG Found in 1998

In our initial assessment in 1998 we noted that a common problem of many reinvention strategies is that organizations attempt to reform their functions before clarifying their missions. HUD did not make that mistake. While HUD's traditional goals remained the same, HUD 2020 recognized that the agency's mission needed to be renewed and clarified. This was done by identifying two core missions: empowering communities and restoring the public trust. This translated into a central organizational theme of HUD's

management reforms: separating service and compliance functions throughout the agency. We noted that separating these two functions, so that HUD employees performed one or the other – but not both – functions, provided much-need clarity for management and employees, and should lead to both better service and stronger compliance.

Under HUD's prior organizational structure, HUD employees who served as community liaisons were program specialists residing in field organizations that reported directly – and exclusively – to program office cylinders at headquarters. Customers who had questions or needs that crossed program areas would have to make phone calls to multiple HUD staff – a frustrating and time-consuming experience. HUD's response to this challenge was the creation of locally-based Community Builders who could act as a one-call resource for helping communities meet their housing and community development needs.

In our 1998 report, we expressed great excitement about the Community Builder concept as a powerful customer service model that would:
- provide a significant infusion of new talent into the organization;
- give HUD customers a single point of contact to reach across the multiple program cylinders; and
- strengthen partnerships between HUD and the communities it serves

We also recommended that, based on our experiences with similar efforts in other organizations, HUD should strengthen the Community Builder strategy in a number of ways, including:
- making program staff accountable to Community Builders for the quality of support they provide; and
- investing in building strong working relationships between the new Community Builders and the existing program staff, by conducting joint training programs, creating clear and effective protocols, and other efforts.

<u>**HUD's Positive Progress to Date**</u>

Community Builders are bringing a new spirit, new perspectives, and new ideas into HUD. Where the relationships between Community Builders and program staff are working well, there is a tremendous transfer of knowledge taking place in both directions. Community Builders are applying their insights from their careers in the private sector, non-profit organizations, or other government agencies to change the way that HUD interacts with communities. Meanwhile, program staff are teaching Community Builders the particulars of the myriad of HUD programs and how they might relate to the community needs the Community Builder is trying to meet. We hope that these models of collaboration can ultimately spread throughout HUD.

In our interviews with HUD's external stakeholders out in the field, we heard numerous examples of Community Builders working with program office staff to make important community improvement initiatives happen. Many of the people we interviewed indicated that they were impressed by the creativity, passion, and knowledge that Community Builders and program staff brought to those projects. Some believed that without the Community Builders' big-picture perspective and strong customer orientation their particular projects would not have succeeded.

After an initial pilot, HUD has recently launched the Community Builder Information System (CoBI). It is designed to be a project management tool for Community Builders to track information on their projects. We believe that it has the potential to be a wonderful knowledge management tool, helping HUD learn from the work that Community Builders are doing all over the country and apply that learning in other communities. We are encouraged that HUD has recently allocated more staff in Headquarters to support the effective use of CoBI and other field office and Community Builder needs.

<u>Opportunities for Strengthening and Sustaining Reform at HUD</u>

As we warned in 1998, the implementation of these kinds of high profile, crosscutting strategies in historically programmatic, bureaucratic organizations is extremely difficult. Long-time employees and external partners are naturally vested in conducting business in the traditional way; substantial changes to those patterns often produce a negative response. So, not surprisingly, we encountered a fair amount of criticism regarding the introduction of the initial wave of Community Builders into the organization. In particular, employees cited the substantial investment of resources in Community Builders, their high-profile role vis-à-vis program staff, and the sometimes problematic working relationships between Community Builders and program staff. While recognizing the institutional opposition to change that may have spurred these concerns, there are ways for HUD to continue to work with its employees to address these issues.

<u>Capture learnings from the first wave of Community Builders</u>: HUD did not conduct formal exit interviews with the many original Community Builders who chose not to remain with HUD. The Department should move quickly to interview these individuals (as well as existing Community Builders and also key program staff) to debrief the Community Builder experience to date. This can be accomplished through telephone interviews or written questionnaires. This should not be treated as a program evaluation. Rather, the product of this work should be a series of learnings that can be used to immediately enhance the existing Community Builder program. In particular, we anticipate that there will be a number of useful recommendations to current and future Community Builders on how they can strengthen the relationship between Community Builders and program staff.

<u>Clarify the results expected of Community Builders</u>: HUD has focused a tremendous amount of energy on attempting to clarify the roles of Community Builders. We believe that HUD should stop focusing on defining roles and instead focus on articulating the results they want Community Builders to produce. Currently, some of the goals for Community Builders in HUD's Business and Operating Plan focus on activities

performed (such as the number of community meetings attended) rather than improved results in communities.

HUD has a great opportunity to develop more powerful outcome-oriented performance measures for the Community Builder program. This might include indicators of quality of life related to housing and community development in those locations served by Community Builders. It might also include measures of satisfaction of those local organizations and individuals with whom Community Builders interact, as well as ratings by their program staff counterparts on their level of intra-office collaboration.

Give the Community Builders more power to deliver results by making program offices more accountable to them: In our 1998 report, we predicted that unless Community Builders had some way to hold program offices accountable for delivering what they needed, those Community Builders would have trouble delivering results in their communities. If most of the authority lies with program offices and headquarters, we warned, Community Builders would be relatively powerless to deliver for their customers. To deal with this, we said, HUD needed to "invert the pyramid," by giving Community Builders genuine decision-making authority and asking program staff to support them with the resources and backup they needed.

This has not yet been done, and one result is confusion about and, in some cases, resentment of the role of Community Builders. Some of this was inevitable, but if it continues it will undermine the genuine promise of the Community Builders strategy. To make it work, the Community Builders need more authority, and they need the power to hold the program offices accountable for delivering the support they need. We are not advocating making the program offices accountable only to the Community Builders; rather, we think their performance should be judged partially based on Community Builders' perceptions of the quality of their support. For example, one significant part of their performance evaluation could be ratings of their work by Community Builders. If this were done – and meaningful consequences were attached to the evaluations –

managers in the program offices would have strong incentives to do whatever they could to support the Community Builders.

Manage Community Builders in new and more post-bureaucratic ways: Community Builders represent a substantially different kind of position in HUD; they are intended to work with communities out in the field rather than from behind a desk. Supervising this kind of HUD employee is a challenge for many managers accustomed to overseeing desk-bound staff. HUD needs to invest in learning from other organizations (public and private) regarding how this kind of workforce can best be managed. For example, Community Builders appear to be perfect candidates for tele-commuting and other flexible work arrangements that will better enable them to respond to the ever-changing needs of the communities they serve.

Create an effective information infrastructure to support Community Builders: HUD needs to ensure that there is an effective system of support for Community Builders in the field. They need useful information resources and helpful collegial advice that they can rely on as they work out in communities. The addition of more staff in headquarters to oversee Community Builder operations is an important first step. There is also a dedicated electronic communications system (through Lotus Notes), but it is apparently significantly underutilized. The recently launched CoBI database has the potential to be an effective project management and knowledge management tool not only for Community Builders but also for program staff. HUD should also push program staff in both headquarters and the field offices to develop in-house training for Community Builders as well as incoming program staff so that they are knowledgeable about HUD's multitude of programs.

<u>Storefronts</u>: HUD is creating a new, more welcoming walk-in experience for its customers.

<u>What PSG Found in 1998</u>

Traditional HUD offices – like those of most federal agencies – were not designed to be particularly welcoming or customer-oriented. Many are located in high-rise office towers or federal buildings requiring citizens to pass through metal detectors and decipher a listing of various agencies and organizations. Because of our belief in the critical need for government to connect with its citizens in fundamentally new ways, we were excited to hear of HUD's plans to create walk-in "storefronts" in the communities it serves. We ultimately developed a special connection to these storefronts; the press conference in May 1998 announcing the results of our first assessment coincided with the grand opening of the first HUD storefront. The unique feel and this-is-not-your-typical-government-office design of the storefront appropriately stole the day's spotlight from our report. We heralded the storefronts as a pioneering effort to make federal agencies more accessible, welcoming, and customer-focused.

<u>HUD's Positive Progress to Date</u>

The storefronts are making an important contribution to helping HUD carry out its new mission of empowering communities and restoring the public trust. To date, HUD has opened storefronts in 12 cities across the country and has plans for at least four more in the next year. These offices are putting a new "retail" face on HUD; in fact, many visitors want to know why other federal agencies don't have similar facilities or aren't co-located with HUD's storefront.

They play an important symbolic role – presenting a more open and accessible image to community residents – but they also provide customers with tangible benefits of enhanced access to HUD's resources and staff. The volume of foot traffic at the storefronts is fairly significant. We believe that the combination of user-friendly technology, on-site

Community Builders, and comfortable, accessible space is changing the dynamic of HUD's relationship with the communities it serves.

HUD is also making its storefronts a useful resource to community organizations by providing meeting space and relevant literature. This helps keep the Community Builders who staff the storefronts wired into the community.

Opportunities for Strengthening and Sustaining Reform at HUD

Incorporate "best practices" into the management of HUD storefronts: Introducing the storefront concept to a federal agency has created some staffing and management challenges (e.g., the managers responsible for running the storefronts – usually Senior Community Builders – are not given an office budget to manage). Therefore, we recommend that HUD draw from the experiences of the existing storefronts and the "best practices" of other retail-oriented operations (public and private) to refine and strengthen the model. In particular, the Department should examine the following issues:

- How to provide an appropriate resource budget to the individuals responsible for running the storefronts.
- How to deploy Community Builders so that they can both deliver exceptional customer service to storefront visitors and manage their other community initiatives effectively.
- How to increase representation by program staff in the storefront offices.
- How to collaborate with other federal agencies and leverage their resources in the storefront operation.

Service Delivery Structure: HUD has made significant efforts to streamline its processing functions.

What PSG Found in 1998

We supported HUD's move to centralize key processing and assessment functions as a means of gaining efficiencies and standardizing compliance standards. We indicated that these moves also held the potential for improved service, provided that strong accountability tools such as service standards and service agreements were put in place. Finally, we challenged HUD to maintain a great deal of flexibility in the use of resources at the service delivery level (i.e., field offices).

HUD's Positive Progress to Date

HUD has established a number of centralized processing centers, including Single Family Homeownership Centers (HOCs), the Accounting Center, Troubled Agency Recovery Center (TARCs), the Section 8 Financial Management Center, and the Grants Management Center. In anticipation of the potential confusion that the creation of these new centers might cause, HUD developed a Program and Services & Operations Manual that spells out the roles and responsibilities among headquarters and field program offices, program centers and hubs, Community Builders, and support functions such as Administration and Procurement.

As part of that operations manual, HUD has introduced the concept of service agreements between each field office and the hubs, centers, or other HUD unit that the field office relies on for service. The service agreements are intended to spell out points of contact, deliverables to be produced, resources to be expended, and quality assessment practices.

Some centers have significantly improved their processing efficiencies. For example, the Homeownership Centers processed a record 1.3 million FHA mortgages in FY1999 and reduced the processing time from 4-6 weeks to an average of 2-3 days. The Section 8 Financial Management Center has substantially reduced the amount of Section 8 funds committed but not under contract and has reduced the time required for processing Section 8 renewals by approximately 80 percent.

We are particularly excited about the new Quality Management Review (QMR) process HUD has instituted this year. HUD has created a pool of 100 career HUD employees from which a team is selected to visit an individual field office and assess its operations. As part of the QMR assessment, HUD conducts employee surveys, on-site interviews, file reviews, and customer service visits. The peer review teams identify strengths as well as areas for improvement. The whole review is conducted from a developmental and learning mindset rather than an audit perspective.

In response to competitive pressures from Fannie Mae and Freddie Mac that have shrunk HUD's market share in multi-family housing development, HUD has designed and begun implementation of Multifamily Accelerated Processing (MAP). This new process, which relies on virtual teams of HUD staff, strives to bring greater consistency and predictability to the development of multi-family housing. The program was rolled out in stages just this summer, making evaluation difficult at this point in time. However, we are very encouraged by the up-front involvement of the multi-family industry; many we spoke to during our site visits expressed optimism about the benefits of this approach. We also believe that the establishment of clear standards for the amount of time for the performance of HUD application reviews will significantly enhance the quality of this service that HUD delivers in this program area.

Opportunities for Strengthening and Sustaining Reform at HUD

Give field offices additional authority to make decisions: In the wake of all the centralization that has taken place, field office staff feel that they have very little authority or flexibility in making decisions about the local implementation of HUD programs. This inevitably leads to delays as field offices wait for approvals from other parts of the Department. Even more important, it works against all the other efforts the Department is making to shed its image as an antiquated bureaucracy. We believe that HUD should move quickly to make a clear and bold delegation of authority to field office program

staff, including decisions on smaller-sized grants. We believe that HUD has enough tracking systems and back-end review to catch any fraudulent decisions.

We believe that HUD should also grant field offices much greater authority over critical management decisions such as hiring, employee rewards and recognition, and resource management. We heard from field office managers that they would like much more control over local hiring and other staffing decisions, including the granting of on-the-spot employee awards. In addition, they would like to be able to leverage administrative funds (travel funds, for example) from multiple program areas for important field-office-wide initiatives. This would entail finding a way to overcome the barriers associated with the traditional program hierarchy in much the same way that HUD has coordinated program funds from multiple areas through the development of consolidated local plans. HUD has placed stronger accountability for performance at the field office level through the BOP process; we believe that it is now time to give the field offices additional tools to succeed by relinquishing control over these important decisions.

Make centralized centers and hubs more accountable to their customers: HUD should take longer-term steps to address the inconsistent level of customer service currently experienced by some HUD partners and field offices when they work with some of the processing centers. The internal service agreements between centers and field offices have not yet become effective accountability tools and, according to some field staff we interviewed, are being ignored. Some individuals we interviewed raised issues about HUD's telephone support and customer services (e.g., calls not being returned and documents being lost). HUD has recently addressed the telephone-related issues by establishing call centers in ten different locations to respond to calls from the HOCs' external customers. We believe that the long-term solution to this challenge lies in 1) establishing and widely communicating clear, measurable customer service standards for hubs and centers and 2) making hubs and centers accountable for meeting those standards as well as the other results contained in the service agreements with the field offices. For example, HUD should introduce redress policies that clearly spell out how a hub or center

will "make things right" with an external customer or field office if they fail to meet the expected service standard.

Find more ways to reduce the "price" of HUD money: External stakeholders appreciate their ability to access HUD resources for initiatives to improve their communities. However, in the eyes of many, the application and oversight processes for some HUD programs are still onerous and excessive. HUD has recognized this in the multi-family housing development process, for example, and has initiated the MAP initiative in response (see above). Another area ripe for an overhaul of the HUD regulatory burden relates to organizations seeking small amounts of money to fund their projects. In our interviews, we heard from these organizations that they and others are beginning to turn to alternative sources of financing.

We believe that HUD could do a number of things to transform its relationships with these and other grantees. This would include establishing a systematic process for obtaining regular feedback from grantees, possibly through the Department's web site. HUD should also look to government agencies like the COPS office in the Justice Department for models on how to overhaul the grant application process for smaller-sized grantees. This could include significantly streamlining the reapplication process for existing grantees that are recognized as high-performers. We recognize that many of the burdens that HUD imposes on its partners are a result of very specific statutory requirements. However, many of these partners believe that there are still areas under HUD's regulatory control that warrant examination, and we recommend that the Department tap into the insights of its partners and employees to find opportunities to make HUD resources more attractive.

<u>Technology</u>: **HUD has made the application of innovative technology a centerpiece of its reform efforts.**

<u>What PSG Found in 1998</u>

Prior to HUD 2020, the Department was far from being a leader in the application of innovative technologies. HUD was very much a paper-driven organization. In our earlier report, we applauded HUD for making technology a critical centerpiece in its reinvention efforts, in a number of ways:

- the development of the Community 2020 mapping software as a tool for people to access relevant community development information about their neighborhoods;

- its website, which even then was a model among federal websites;

- the deployment of electronic, touch-screen kiosks in community buildings; and

- the creation and maintenance of a robust employee intranet.

<u>HUD's Positive Progress to Date</u>

HUD has clearly propelled itself into the Information Age in a substantial way.

There is wildly enthusiastic support for the HUD website among the Department's stakeholders. People both internally and externally view it as an essential source of current information, forms, regulations, and updates on HUD activities. We are particularly impressed by its home-page feature, which enables visitors to self-select a specially designed path based on their relationship with HUD. For example, the link for first-time homebuyers takes visitors to a page devoted to HUD and non-HUD resources for that important demographic group. Meanwhile, individuals in the multi-family industry have a link that provides them with the latest updates to regulations and other important news. This customer-oriented approach is unusual among government agencies.

As confirmation of this praise, MIT recently awarded HUD its first eCitizen Services Award for federal agencies. This award recognizes government organizations that

exemplify innovative electronic citizen services. HUD's web site received high marks for "empowering citizens and business partners with interactive on-line services and information related to housing and communities. The site's format simplifies interaction with the Department, allowing individuals and business to access the information they want, when they need it, in ways that make sense to them, so they can solve their own problems and meet their own objectives."

Another important feature of HUD's website is its "Best Practices" database. This multi-year effort has created an inventory of hundreds of innovative local programs and initiatives that is searchable by keywords. This helps individuals and organizations interested in improving their communities tap into a vast wealth of ideas from peers around the country. We believe this is a powerful example of the kind of catalytic change that federal agencies can foster in local communities. We are also encouraged by HUD's plans to evolve the current arrangement into an even more effective, user-friendly knowledge management system that expands the available information resources beyond just the annual Best Practices award winners.

We also were impressed by HUD's strategy to teach its non-profit partners how to get their own organizations on the Web. This is a great approach for extending the Department's electronic reach beyond its walls. And the training sessions themselves – which are free and offered at locations around the country – demonstrate HUD's commitment to making the transition to web-based services as easy as possible for its stakeholders.

The Department's intranet (HUDweb) is a very strong communications tool for HUD employees. It contains many useful features, including employee chat areas – a relatively unique feature in government intranets. We are particularly excited about the planned redesign of the intranet to include a new name (HUD@work) and the added feature that will allow employees to customize their initial start-up page.

HUD has also introduced a variety of innovative technology solutions to improve particular processes and/or customer service. These include the Enforcement Center's use of document imaging to make it possible to transmit important materials to workers in multiple locations. The Real Estate Assessment Center is placing handheld assessment devices in the hands of its inspectors. And HUD has installed touch-screen consumer kiosks around the country – 89 kiosks in 47 states by the latest count – to give citizens walk-up electronic access to HUD information.

HUD is also making progress at bringing its antiquated information systems into alignment with industry standards. The Department's Chief Information Officer (CIO) is taking the lead in developing a HUD-wide Enterprise Architecture for its information systems. This step is critical for achieving the kind of cross-program integration of information necessary to produce the results that communities and Congress expect.

HUD has been recognized by OMB as a leader among federal agencies in the area of IT capital planning. The Department has established criteria for the justification of all IT investments. Those requesting funds for IT investments must submit full life-cycle costs for their projects and conduct cost-benefit analyses. Finally, the Department's use of a Technology Investment Board and a system of prioritizing competing IT investment proposals helps produce Capital Asset Plans that OMB has found to be "among the best in the government.... HUD's control process for Capital Planning and Investment Control is one of the most stringent, proactive, and results-driven in the federal government."

Opportunities for Strengthening and Sustaining Reform at HUD

Make end-user involvement in systems development a new habit at HUD: Like nearly every organization that has needed to make substantial improvements in its information systems, HUD has not achieved perfect implementation success. To avoid user-interface problems in the future, HUD should continue to improve its involvement of external partners (as well as local field office staff) at the front end of the design of future systems.

These front-line users have traditionally experienced HUD as taking a very "headquarters-centric" approach to systems development, satisfying Congressional and/or executive branch information needs first. They recognize the need to meet such requirements, and they are eager to work with HUD staff and contractors to design systems that provide value added for both Washington-based and local users. A promising example of HUD's efforts in this area is the development of HUD's Departmental Grants Management System (DGMS). HUD solicited volunteers from both field offices and grantee organizations to work with headquarters and contractor staff to provide input into the development process. A number of the external partners agreed to be participants in the pilot phase. While full implementation of DGMS has been delayed, HUD should use this approach of extensive user involvement as a model for all future systems projects.

Invest in improved project management skills: The capability to deliver high-quality project management is critical for planning major systems projects and bringing them to fruition. The HUD CIO has taken an important step in creating a Project Management Review Board (PMRB). This group reviews important IT projects – such as the Departmental Grants Management System and HUDCAP – to ensure that they are on schedule, within budget, and meeting the mission of HUD. The PMRB will also be looking at existing mission-critical systems and assessing the risk factors associated with those systems. As HUD continues to work on making system changes, it will need to invest substantially in the project management skills of its staff, especially in the IT branch in Administration.

Make the investments and decisions necessary to make HUD a leader in using the Internet and other tools to transform its relationship with communities and citizens: Finally, HUD should build upon the success associated with its website by appropriately funding and supporting the web team as a bureaucratically independent unit. Many organizations try to locate their web teams in the public relations or technology unit; HUD has wisely avoided that course. Continuing to do so will help keep HUD on the cutting edge by

creating a voice for change that is not beholden to any single program area and can think and act from a strategic HUD-wide perspective. HUD also needs to recognize that "e-government" means more than simply putting its documents on the Web. HUD should enhance its website by putting up more forms that can be completed on-line (not just downloaded), enabling the on-line tracking of applications through the application process, and using more streaming video for both internal and external web-based training and information sharing. But HUD also has a real opportunity to go beyond that to use the Internet to actually engage citizens and partners in dialogue and coordinated planning to improve the quality of life in their communities.

<u>Financial Management Reform:</u> HUD now has a multi-year vision and implementation plan for the modernization of its financial management system.

<u>What PSG Found in 1998</u>

The myriad of problems that HUD faced in the area of financial management is legendary. Conditions like the proliferation of 89 separate non-integrated program-specific systems and the lack of a single HUD-wide general ledger have helped keep HUD as the lone agency on GAO's high-risk list. In our 1998 report, we called the creation of an integrated financial management system "an essential ingredient to this reform strategy." We believed that HUD's "back to basics" plans in the area of financial management – including a thorough data clean-up effort – were critical to restoring public trust at HUD.

<u>HUD's Positive Progress to Date</u>

HUD appears to making good progress at getting its financial house in order**.** The Department received its first-ever "clean" audit from the Inspector General on its FY1998 financial statements, and it has addressed concerns raised by the IG during its FY1999

audit. HUD also now has a new, standard, fully compliant, HUD-wide general ledger that includes summary transactions for FHA and Ginnie Mae.

The Department also appears to have strong support from OMB and GAO for its financial management system modernization plan and implementation approach.   These important partners – along with the Secretary – have agreed to ambitious financial commitments over the next decade for implementing the system. New, professional leadership in the Office of The Chief Financial Officer (CFO) has been a huge asset to reviving, strengthening, and winning support for HUD's modernization plans.

We were also impressed to find that the CFO is involved in high-level management discussions. As HUD moves through this period of implementing a massive modernization of its financial management system, this kind of communication between the financial side of HUD and the program side of HUD will help improve the alignment between the organization's financial strategy and its program policy.

Opportunities for Strengthening and Sustaining Reform at HUD

Stay on course with FMS modernization: It appears to us that HUD is now moving in a strong, decisive manner to modernize its financial systems. We recommend that HUD leaders continue supporting the work of the current Chief Financial Officer and partnering closely with OMB and GAO to help make the implementation of the financial management system a success.

Procurement Reform: HUD has made major strides in significantly improving its procurement practices.

<u>**What PSG Found in 1998**</u>

At the time of our 1998 assessment. we pointed out that HUD was working on a number of much-needed recommendations from the National Academy of Public Administration (NAPA) regarding procurement reform. These included the creation of a Chief Procurement Officer, the establishment of a Contract Management Review Board, better training of Government Technical Representatives (GTRs), and greater use of GSA schedule contracts.

<u>**HUD's Positive Progress to Date**</u>

HUD has made significant improvements in the way it does procurement; in fact, last year, the HUD Inspector General removed contracting as a material weakness at HUD. Two of the chief reforms to ensure greater accountability have been the creation of a Chief Procurement Officer reporting directly to the Deputy Secretary and the establishment of a Contract Management Review Board to review and approve program offices' annual procurement plan and individual contracts that exceed $1 million. In addition, HUD has implemented a program to certify both full-time Government Technical Representatives (GTRs) and HUD staff with GTR-related duties.

We were also impressed that HUD has moved aggressively to streamline its procurement process so that program areas can acquire the goods and services they need in a timely fashion. They use what they call an "accelerated contracting process." Under this system, RFPs are developed as draft statements of work with a team consisting of a program staff person, a procurement staff person, and, to further refine the statement, representative contractors. The procurement staff has invested in educating program staff about their responsibilities in the procurement process. It has performed just-in-time training for program staff on the new accelerated contracting process, and it has followed up with technical assistance as needed. In addition, HUD makes heavy use of GSA schedules of preferred contractors, which also speeds turnaround times in a way that still safeguards taxpayers' interests in quality purchases.

Finally, in a 21st century approach to promoting the use of small businesses, HUD continually posts on its website information on awarded contracts that offer sub-contracting possibilities. We believe that this is a useful tool that other government organizations should replicate.

Opportunities for Strengthening and Sustaining Reform at HUD

Continue to make performance-based contracting a high priority: HUD has witnessed significant growth in the use of contractors in the past few years. Accordingly, HUD needs continued vigilance in its selection and oversight of contractors. HUD has already significantly expanded the volume of contract obligations that include performance-based features from $3.3 million in FY1998 to more than $32 million in FY2000. We encourage HUD to continue this trend and strengthen it by putting in very clear performance and customer service standards and tying vendor compensation to the achievement of those goals. HUD should also communicate these performance standards to its field staff and possibly even to relevant external partners. In that way, they (and not just GTRs) will know what to expect from HUD contractors in the way of performance.

Organizational Culture: HUD leaders should reach out to employees in new ways to enhance and sustain the Department's reform efforts.

What PSG Found in 1998

While we did not specifically address organizational culture in our 1998 report, we challenged HUD to invest heavily in frequent, candid, and genuine communication with its workforce. In particular, we recommended that HUD maintain high levels of interaction between senior management and front-line employees, who were going to experience the majority of the impacts associated with the HUD 2020 reforms. Such

interaction would not only contribute to a sense among employees that their opinions were being heard but also improve the change process.

HUD's Positive Progress to Date

We experienced a very strong entrepreneurial, performance-oriented spirit in several pockets of the HUD organization, including the new components of REAC, the Enforcement Center, and Community Builders. We also observed how local leadership in field offices is working to overcome the historical program cylinders to create a sense of teamwork and mutual accountability. In many places, the spirit of the "new HUD" was very much alive and kicking. We witnessed it first hand at the Department's second annual Best Practices Symposium, where local and headquarters staff and community representatives gathered to celebrate hundreds of innovative efforts from around the country.

In the course of the implementation of HUD 2020, the Department has often used video-conferencing technology to strengthen communication across a nationwide operation stretched out across over 80 cities. Conducting training, making important announcements, and soliciting input from employees through this medium are important efforts to try to create a sense of "One HUD."

HUD is currently enjoying a wave of new hiring, which is bringing in several hundred new employees. This is notable because it is a departure from the past few years, which focused on downsizing the workforce through early retirement options and attrition. We met some of these new employees and believe they are adding "new blood" to an otherwise aging organization. (A little more than 50% of the HUD workforce is eligible for retirement or will be within the next 3 years).

Finally, we met many people who have moved on from the trauma of the reorganization and have become future-focused and optimistic about the contributions they can make at HUD. This condition appears to be most strongly influenced by the quality of local

leadership. For example, in places where the BOP is taken seriously, there is visible pride in the workforce about meeting or exceeding their goals.

Opportunities for Strengthening and Sustaining Reform at HUD

Create meaningful dialogue with HUD employees: For the last three years, HUD employees have made tremendous efforts and, in some cases, personal sacrifices to help make HUD 2020 a reality. Many are excited and inspired by the challenge of reinventing HUD; they like the direction of HUD 2020 and come to work every day looking for ways to add to it. Many others are tired from the pace of change and anxious about what the future holds for them and for HUD. Among these individuals, there is a strong attitude of "make no mistakes." They feel they have good ideas, but they also feel unsupported by others who don't want to rock the boat. This diversity of experiences is to be expected in a massive reform effort like this. However, if the HUD 2020 reforms are going to stay on a positive course and reach their full potential, these conditions cannot go unattended.

We recommend that the senior career leadership from both headquarters and the field be chartered to establish a series of face-to-face forums with employees around the country. The purpose of these forums would be to allow employees to express their fears and frustrations and then channel this energy into passion for the further changes and challenges that lie ahead. These forums need to be long enough to allow employees to express themselves adequately, to share their concerns, to find some common ground, and to begin building new optimism for their work and the organization. The forums need to also focus on fixing the problems the employees surface. In response to specific suggestions, the leaders of these sessions should be empowered to say either "yes," "no," or "we'll work on it and get back to you by a certain date."

HUD should not try to use video-conferencing to accomplish this important work; it is not conducive to this kind of dialogue. This formal process – led by career managers who

will carry over into the next administration – can help set the stage and a positive framework for improving the HUD 2020 reforms and institutionalizing them.

Develop a comprehensive strategy to deal with impending employee turnover: More than 50 percent of the HUD workforce is eligible for retirement or will be in the next 3 years. While this phenomenon is not unusual in the public sector, the breadth of HUD's situation is greater than most organizations we have seen. HUD has acknowledged this situation and is in the process of launching a "succession planning" strategy. We offer these thoughts as input to that effort. We believe the challenge before HUD is two-fold: 1) making the exit of long-time HUD employees meaningful and productive and 2) attracting new talent into the organization to carry out HUD's mission.

In response to the first challenge, HUD should create ways for long-time employees to transfer their knowledge to new and existing employees before they leave. This can be done both electronically through knowledge management databases accessible through the Department's intranet and face-to-face through the creation of mentorships and coaching relationships. Using both of these strategies, HUD can enable its long-serving workforce to leave behind a lasting legacy of knowledge and insight that can be used to foster more innovation by those who remain and join up in the future.

Regarding the second challenge of bringing talented people into the HUD workforce, HUD must continue and enhance efforts like its SES candidate development program and its program for transitioning people from secretarial positions to program staff. It should also take greater advantage of strategies like intern programs to introduce college and graduate students to HUD early in their careers and the Inter-governmental Personnel Act to try to draw local and state government employees into federal service.

<u>Conclusion</u>

As we have outlined above, HUD has made impressive strides at implementing the reform strategies that it established three years ago. Many positive changes have taken place that have begun to restore HUD's credibility and relevance to communities in this country. We are pleased to applaud the Department's leaders and workforce in making them happen.

We are also wary of the inevitable inertia that often sets in during a transition in administration. HUD is at a critical juncture in its reform process, and the needs of the citizens and communities HUD serves continue to grow each day. Therefore, we urge the Department to move forward expeditiously on our recommendations regarding how to strengthen and institutionalize these reforms. We believe that a large percentage of these recommendations can be addressed in the next few months. We also believe that much of this requires managerial work rather than policy changes. We hope HUD does not let pass this excellent opportunity to solidify and enhance what it has already accomplished.

<u>Methodology</u>

PSG used a number of different data collection methods during this project. We reviewed strategic and operational documents relevant to the state of the HUD 2020 reform effort. These included the Department's strategic plan, annual performance plan, business operating plans, and performance reports. We interviewed key Headquarters staff, including members of the Secretary's leadership team.

We also made site visits to six field offices around the country, at which we interviewed employees and external stakeholders. The six offices – chosen to obtain a mix of geographic regions and office size – were located in Hartford, Atlanta, Miami, Denver, Albuquerque, and Seattle. At each site visit, we interviewed a sample of employees across all program areas and conducted one-on-one interviews with key external stakeholders, including individuals from local governments, private-sector firms, and not-for-profit organizations. In addition, we held group interviews with groups such as public and multi-family housing residents, property managers, and non-profit directors.