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EXECUTIVE SUMMARY OF THE  
COMPTROLLER GENERAL'S

# Report To The Congress

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## Increasing The Department Of Housing And Urban Development's Effectiveness Through Improved Management

### VOLUME I

This is the first in a series of GAO reports evaluating management effectiveness at major federal departments. The Department of Housing and Urban Development (HUD) is striving to better manage its programs and achieve its current objectives of (1) reducing waste, fraud, and mismanagement, (2) controlling costs, (3) deregulating, and (4) relying more on the private sector. Management initiatives are required to address the underlying causes of continuing problems in several key areas. These areas include organizing, planning, budgeting, program delivery, and accounting and financial management. GAO found a need to

- Place more emphasis on general management functions, such as planning, staff training and development, and financial management
- Strengthen accountability for general management functions
- Build an organization with greater stability
- Establish continuity within HUD's top management team

HUD is working hard to resolve many of its problems, and GAO offers recommendations to the agency and the Congress to complement that effort.



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COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON D.C. 20548

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To the President of the Senate and the  
Speaker of the House of Representatives

This is the executive summary of our full report evaluating the management effectiveness at the Department of Housing and Urban Development (HUD). The purpose of this review was to analyze HUD's management, identify and analyze problems, and make recommendations to improve any shortcomings. It is the first in a series of reviews at major federal departments.

We concentrated our efforts on HUD's organizational structure; accounting, financial, planning, and budget functions; and program delivery. While we found that HUD is striving to make improvements, we suggest further ways to increase program effectiveness through management efficiency.

During this review HUD's Secretary and his staff gave us full support and cooperation. We obtained the Secretary's comments on the report and incorporated them where appropriate. He agreed with many of our recommendations.

We are sending copies of this report to the Secretary, Department of Housing and Urban Development; the Director, Office of Management and Budget; and interested congressional committees, subcommittees, and individual members of Congress.

Comptroller General  
of the United States

D I G E S T

The Department of Housing and Urban Development (HUD) has played a major role in upgrading the nation's housing and providing community development aid to cities and counties. HUD's performance in operating its multibillion-dollar programs could be strengthened by improvements in general management functions including organizational structure, planning, staffing, financial management, and program monitoring.

GAO reached this conclusion after analyzing reports by GAO, HUD's Inspector General, and others on HUD's program performance and examining management conditions. GAO conducted its review with the full support and cooperation of HUD's Secretary and his staff.

GAO's purpose was to (1) identify and analyze management problems and their underlying causes and (2) recommend improvements to the Congress and HUD, recognizing and complementing management and program initiatives already underway. In this regard, for example, HUD has increased its efforts to prevent fraud, waste, and mismanagement and to improve cost control. This volume summarizes the results of GAO's review, with the full report appearing in Volume II.

GAO observed that many of HUD's specific management problems are complex and longstanding. While HUD has begun to address some of its problems, success will be elusive unless the Congress and HUD address what GAO believes are basic underlying causes of managerial difficulties. There is a need to:

- build an organization with greater stability;
- place more emphasis on general management functions;
- strengthen accountability for general management functions; and

--establish continuity within HUD's top management team.

Any analysis of HUD's management effectiveness would not be complete without recognizing external influences. HUD is influenced by its clientele and by public and private interest groups. Furthermore, it must cope with shifts in program focus and direction resulting from actions by the Congress and changes in administrations.

#### ADDRESSING ORGANIZATIONAL ISSUES

The 1981 legislative year marked the introduction of the administration's proposal to reduce the federal government's role in accomplishing national objectives. The thrust is to reduce federal involvement and rely more on the private sector and state and local governments. For example, HUD has (1) redirected the focus for housing from construction to greater use of existing housing and (2) reduced government restraints on the Community Development Block Grant Program, including encouraging states to administer the program's small city segment.

In September 1983 HUD restructured its field organization to reflect reduced workload and program changes. However, the reorganization did not address certain management deficiencies inherent in the existing organizational arrangement. Prior reorganizations had led to complex relationships among levels of management, creating confusion concerning the specific responsibilities and functions of HUD's field offices vis-a-vis headquarters.

Also, HUD's recent reorganization still embraces a regional office concept and a field office presence in most states which may be overly complex to meet a reduced federal role.

In view of ongoing program changes and further program, policy, and cost and benefit uncertainties, GAO is recommending that HUD's Secretary evaluate how well the new field structure is working. (See p. 9.)

#### NEW APPROACHES FOR MANAGERIAL CONTINUITY AND ACCOUNTABILITY

HUD's Secretary implements major policy initiatives and sets the tone for agency

managers and staff. Secretarial actions, together with the agency's management processes and systems, demonstrate commitment to effective and efficient management.

GAO believes demonstration of this commitment could be enhanced by (1) an explicit statement of the Department's goals and objectives which outlines the Secretary's agenda and priorities for the coming years, (2) specific delegation of authority to one person for the Department's general management functions, (3) the Secretary's showing support for improving and using HUD's management systems and processes for decisionmaking, and (4) having an effective system which holds managers accountable for performance. However, GAO found that HUD had problems in each of these areas.

--Although the Department's priorities were articulated through operating plans, they were not clearly linked to Secretarial goals and objectives. For example, a field office met a Secretarial priority of increasing debt collection on a HUD loan program by expediting other HUD payments to the debtors, portions of which they then used to pay interest due HUD.

--No one person, including the Under Secretary, has been delegated the responsibility to oversee the agency's daily operations as they relate to general management functions.

--Much of HUD's planning and policy development occurs through the budget development process as contrasted with a well-established departmental management planning process that is clearly linked to Secretarial goals and objectives. For example, in transferring major responsibility for operating the Small Cities Block Grant Program to the states, a Secretarial goal, HUD did not adequately consider this initiative's effect on HUD staffing needs, monitoring policies, or program administration.

--General management functions, such as program evaluation and financial management, were widely dispersed, uncoordinated, and needing improvement. For example, the absence of a central direction and focus for financial management contributed to HUD spending \$27 million in an unsuccessful attempt to

develop an automated accounting system for its mortgage insurance activities.

HUD's top management team changes frequently--presidential appointees at HUD have turned over about every 2 years and turnover is also high among the Senior Executive Service staff. As a result, institutional memory at a high level does not exist to understand the causes of HUD's longstanding management problems and the implications of alternative solutions.

GAO offers the Congress three options for its consideration which, in varying degrees, address managerial style, accountability, and continuity issues. One option is for the Congress to amend HUD's enabling legislation and create the position of Under Secretary for Management. The position would be filled by a nonpartisan presidential appointee who would be accountable, by law, to the Secretary for HUD's management systems and general management functions. To increase the likelihood that an effective Under Secretary would remain when HUD's leadership changes, the Congress could style the proposed amendment after the Inspector General Act of 1978 which requires notifying both houses of Congress of the reason for removal.

A second option is to strengthen the role of the Assistant Secretary for Administration by delegating to the Assistant Secretary authority to oversee all of HUD's general management functions. A third option is to create the position of Deputy Under Secretary for Management under the present single Under Secretary. Unlike the first two options, this proposed career-reserved official would be only an advisor to the Office of the Secretary and would not have authority over general management functions.

GAO recognizes that a nonpartisan Under Secretary for Management may be a departure from our traditional political system. However, this option is particularly attractive because it can professionalize and enhance HUD's managerial leadership and provide a benchmark for the Congress to use when considering ways to improve management in other federal agencies. (See p. 12.)

## ADDRESSING MANAGEMENT PROBLEMS AND ISSUES

HUD has made significant strides toward resolving many of its management problems. For example, HUD has increased its efforts in monitoring to prevent fraud, waste, and mismanagement and is improving its financial management activities. These and other management actions are positive steps. (See p. 6.)

HUD's management and GAO recognize that additional improvements are needed, but they will not come easily and will require time. Therefore, GAO is making short- and long-term recommendations to HUD. GAO also presents recommendations to and matters for consideration by the Congress.

### Improving planning and budgeting

Planning and budgeting must play an important role if HUD is to successfully manage the transition from programs stressing housing production to those stressing preservation and maintenance of existing housing and greater emphasis on cost control and reliance on the private sector. HUD relies on the budget process as the primary means to direct and control HUD activity. This reliance has not been an effective substitute for needed management systems for planning, developing policy, and communicating current and future Secretarial expectations to headquarters and field staffs. (See p. 20.)

GAO also found that the short (annual) budget and legislative cycles, coupled with delayed funding approval, contributed to management problems. For example, HUD's appropriation bills were enacted late 19 of 21 times from 1962 to 1982. These delays contributed to late communication of budgetary priorities to program staff and fostered a short-term focus and uncertainty beyond the authorized period at the expense of long-range planning. For example, delayed funding prevents many of the nation's 2,700 public housing authorities from operating efficiently. These authorities received subsidies through HUD, totaling about \$1.2 billion in fiscal year 1983, to pay for such items as utilities, maintenance, and security. The uncertainties surrounding delayed funding

prevent authorities from engaging in meaningful budget planning, which increases risks of poor security and further deterioration of buildings and equipment. GAO has previously proposed that the Congress consider such reforms as multiyear authorizations and clearer statements of policy and program objectives in authorization legislation. While these changes may be slow in coming, their need has been recognized by congressional budgetary reform legislation introduced in the 98th Congress. (See p. 25.)

GAO also found weaknesses in HUD's analytical base--accounting, financial, resource management, and evaluation data used to support HUD's budget and to monitor and analyze program execution. For example, HUD does not allocate salaries and expenses--which annually exceed \$500 million--to many of its programs. As a result, the total costs of many programs are not available for oversight and analysis by the Congress and others. (See p. 27.)

Further, the magnitude, design, and the funding practices associated with certain aspects of HUD's budget presentation create congressional budgetary control problems. For example, HUD's long-term contracts for assisted housing have created obligations for future outlays of nearly \$206 billion. (See p. 30.)

GAO's recommendations to improve budgeting and planning are aimed at

- the Congress' requiring HUD to expand its budget justifications to fully reflect all material aspects of uncontrollable costs and the budgetary impact of programs (see p. 32);
- HUD's developing a department-wide planning system (see p. 21); and
- HUD's improving the analytical base of the budget by continuing efforts to improve financial management systems that integrate budgeting and accounting (see p. 29).

Program delivery can  
be more effective

Although the nature and severity of program delivery shortcomings vary among programs, several problems are common. HUD needs to



(1) more effectively provide guidance and direction to program delivery staff, (2) develop staff skills and expertise, and (3) resolve problems uncovered by the many reviews, audits, and evaluations of HUD programs and procedures.

Staff skill and training inadequacies, in particular, limit HUD's ability to properly monitor programs and grantees. Also, rapidly changing organizational needs, coupled with workload changes, are further straining HUD's efforts to improve its staffing. For example, HUD's field managers told GAO that staff training was a critical need. Groups served by HUD also cited staffing inadequacies as a major HUD problem.

GAO's recommendations to HUD's Secretary in these areas are aimed at

- establishing a more effective staff development program (see p. 40);
- improving the quality and timeliness of headquarters guidance to field offices (see p. 34); and
- improving monitoring of program participants, on-site performance evaluations, and management's responses to internal and external report recommendations (see pp. 36 and 38).

Financial management  
information systems  
weaknesses

HUD's financial management information systems have not kept pace with the needs of the Congress or HUD's management. Although HUD's management has initiated a number of improvements, it has not fully addressed the underlying causes of these systems problems. These include the absence of

- a Chief Financial Officer with responsibility for providing a central focus for developing financial management policies and systems and
- long-range planning to establish improved oversight and control over automated systems.

HUD's management information systems do not provide timely and accurate data necessary to

establish accountability for, and control over, housing and urban development programs. Also, HUD's accounting systems were not sufficiently automated, and extensive manual efforts are needed to perform accounting functions. Only 40 percent of headquarters accounting systems were automated, and most of those automated were obsolete.

Further, a number of these systems were implemented without assurance that they comply with the principles and standards prescribed by the Comptroller General. Also, GAO has been consistently unable to express an unqualified opinion on the financial statements of the Federal Housing Administration fund--HUD's mortgage insurance arm--because of accounting system deficiencies. Further, recent HUD reports concluded that accounting systems for the Assisted Housing and Community Development Block Grant Programs were not adequate to meet management's needs. (See p. 18.)

Recognizing the need for improvements, HUD is reevaluating its internal controls and reviewing the vulnerability of its accounting systems to fraud, waste, and abuse. This effort should place the Secretary in a better position to report on the adequacy of internal controls as required by the Federal Managers' Financial Integrity Act (Public Law 97-255).

GAO's short- and long-term recommendations for the Secretary of Housing and Urban Development to further improve financial management systems include:

For the short-term,

--establishing the position of Chief Financial Officer with clear responsibility and accountability to set financial policy and provide a central focus for development of improved financial management systems and

--correcting internal control weaknesses.

For the long-term,

--developing accounting systems which comply with the principles and standards established by the Comptroller General,

- streamlining the processes used to accomplish accounting functions, and
- establishing a long-range automatic data processing planning and control process. (See p. 20.)

AGENCY COMMENTS AND  
GAO's EVALUATION

HUD agreed with many of GAO's findings and recommendations. Often it said it was taking or planning actions which would correct deficiencies GAO cited. HUD disagreed with GAO's draft proposal to reevaluate the proposed field reorganization. Concerning planning--another area where GAO and HUD differed--HUD agreed that it needs to better integrate its budget process with other management functions but disagreed with program examples cited by GAO showing a need for more systematic planning. HUD also said it had reported long-term goals and objectives to the President and is attempting to refine these within the context of existing and proposed legislation. HUD also disagreed with GAO's recommendation that the Congress require HUD to include in its budget justification more information on future costs and budgetary consequences of programs.

Regarding GAO's three options to increase continuity and accountability for general management functions, HUD stated that it preferred the option of strengthening the role of the Assistant Secretary for Administration and increasing the involvement of the existing Under Secretary in day-to-day activities relating to the overall management of the Department.

GAO considered the Department's comments and made necessary changes to its report. GAO has disagreed with HUD's field reorganization in two prior reports and in testimony before the Congress. Since HUD has finalized its reorganization GAO recognizes that its draft proposal to reevaluate the proposed field reorganization is now moot. However, GAO concludes that the reorganization does not fully address problems identified in the report. Although GAO is not recommending that HUD's Secretary modify, at this time, the new field structure, GAO is recommending that the

Secretary evaluate how well the new field structure is working. (See p. 10.)

The planning examples cited by GAO demonstrate that planning at HUD is of dissimilar quality and scope. In the case of a proposed housing vouchers program, for example, HUD did not consider what staff resources or skills it would need to effectively implement the program.

On long-term goals and objectives, GAO found that HUD did not include these in its budget justification or link them to its field office planning system. Similarly, GAO's recommendation to the Congress on expanding HUD's budget justification is based on the perspective of overall budgetary control. Both the Department's obligated balances and guaranteed loan balances are about half of the government's total. Accordingly, GAO continues to believe that the Congress would benefit from more information on the expected future costs of HUD's programs.

GAO continues to favor the option of creating the position of Under Secretary for Management. GAO recognizes that strengthening the role of the Assistant Secretary for Administration has certain advantages, such as requiring relatively little reorganization. However, this option may prove to be less effective than the option for an Under Secretary for Management in resolving the difficult issues of management commitment and accountability. Using the Assistant Secretary for Administration and the present Under Secretary may result in a "Business as usual" approach to management improvement. Therefore, creating a non-partisan Under Secretary for Management offers more promise for professionalizing and enhancing management performance at HUD.

GAO's specific responses to HUD's comments follow the applicable recommendation sections of the report.

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## I. INTRODUCTION

This review is the first in our long-term objective of reviewing the effectiveness of management at federal departments. For this review we considered the term management as including systems and processes involved in

- o organizing and directing the agency,
- o planning its activities and allocating resources,
- o executing program delivery, and
- o providing management control through accurate and timely information.

Specifically, we sought to (1) identify and analyze management problems and their underlying causes and (2) recommend improvements to the Congress and HUD's Secretary for increasing management effectiveness in light of current HUD programs and policies and management initiatives already underway.

An analysis of HUD's management is not complete without recognizing the impact of external influences. Many groups, including cities and public interest organizations, influence HUD policies and programs. Also, HUD managers must cope with frequent shifts in program focus and direction resulting from actions by the Congress, the President, and the Office of Management and Budget (OMB). This can result in HUD's having complex programs with multiple and sometimes conflicting purposes, hampering its ability to effectively plan and control resources and achieve desired program results.

This volume summarizes the results of our review. Our complete presentation appears in Volume II: Increasing HUD's Effectiveness Through Improved Management (GAO/RCED-84-9).

HUD has played a major role in meeting the nation's housing and community development needs. This accomplishment has not come without concern for HUD's performance in managing its many programs. Shortcomings in management systems and performance have been cited in numerous reports by us, HUD's Inspector General, congressional committees, and others.

To successfully manage its programs and administer its current objectives of (1) reducing waste, fraud, and mismanagement, (2) controlling costs, (3) deregulating, and (4) relying more on the private sector, HUD must address the underlying causes of continuing management inefficiencies in such areas as planning, monitoring, and financial management. We found these causes indicate a need for:

- o increased emphasis on general management functions, such as planning, staff training and development, and financial management;
- o strengthened accountability for general management functions;
- o organizational stability; and
- o added continuity in HUD's top management team.

HUD's current top managers recognize that problems exist and have taken some actions to overcome some problems and are considering additional initiatives. These actions include improving financial and accounting controls, planning systems, training, and monitoring to prevent fraud, waste, and mismanagement. These are positive steps, but much remains to be done to correct the underlying causes of management deficiencies we identified.

Improving managerial effectiveness is a complex task. Some problem areas can be solved in the short run and without major changes. For example, the development of a HUD-wide planning system and improved monitoring of program participants can be accomplished fairly quickly. Other problems areas will require longer run solutions. Enhancing the analytical base for budget development, improving staff development, and building reliable financial management systems are examples. Still other solutions require congressional action. For example, creating a high level professional manager who would be held accountable for general management functions, is an option requiring congressional consideration.

## II. HUD AND THE MAGNITUDE OF ITS MANAGEMENT TASK

The history of HUD is characterized by change and conflict due to the evolutionary federal role in housing and urban development and to many diverse social, economic, and political forces affecting this role.

Since it was created by the Congress in 1965, HUD's functions and authority have expanded over time to a broad mission of (1) providing adequate housing for all Americans, (2) promoting community and economic development for urban areas, and (3) eliminating discrimination in housing markets. HUD's programs in each of these areas could be summarized as follows:

## Major HUD Program Areas

Housing	Community development	Fair housing
<p>Housing assistance programs and the mortgage insurance programs through the Federal Housing Administration (FHA) provide low- and moderate-income families with homeownership and rental housing assistance.</p>	<p>Community Development Block Grant Programs, the Urban Development Action Grant Program, and Rehabilitation Loan and Urban Homesteading Programs help communities improve housing conditions, conserve energy supplies, expand business opportunities and provide jobs, and revitalize blighted areas in the nation's cities and counties.</p>	<p>Fair Housing Programs provide financial assistance to state and local agencies to help them eliminate housing discrimination by promptly processing civil rights complaints and by carrying out affirmative marketing agreements and promoting equal opportunity matters within HUD programs.</p>

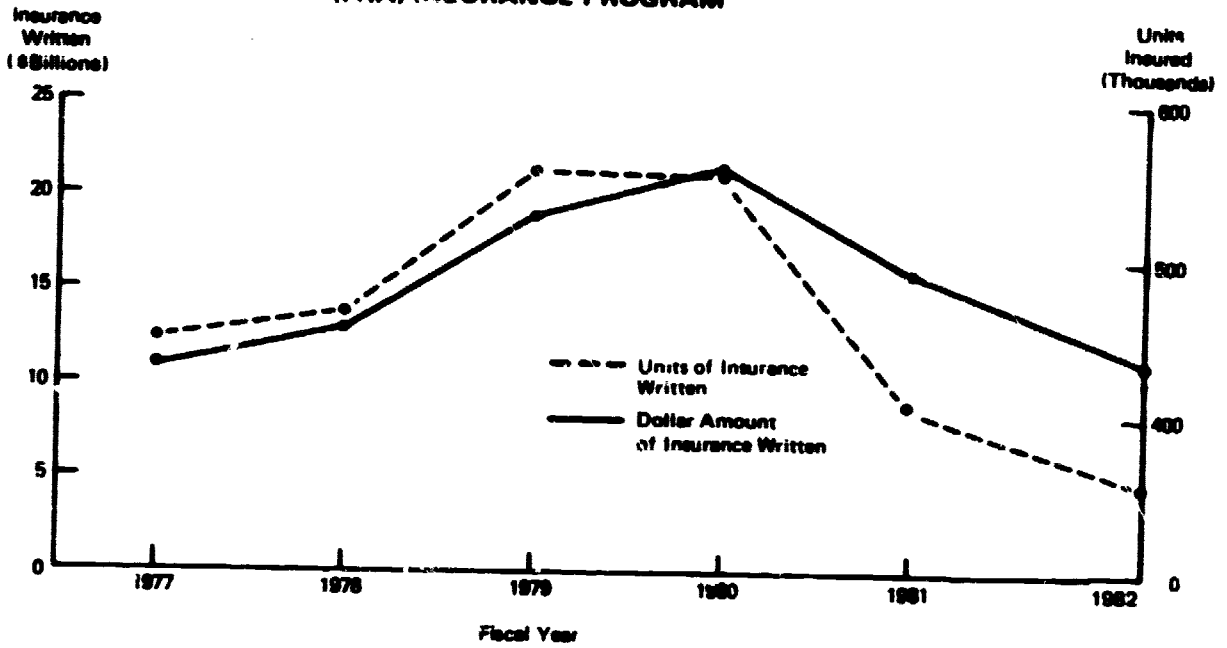
HUD programs are among the most complex in government. HUD grants money to communities, insures homes, subsidizes rents, and at times is a landlord, real estate agent, and counselor. It conducts business through 2,700 public housing authorities (entities of local governments), all states, hundreds of local governments, and numerous other public and private organizations including developers, neighborhood groups, and financial institutions. Over 200 legislative acts, titles, and sections and hundreds of regulations define relationships among HUD, its programs, and its constituents. About 40 congressional committees and subcommittees oversee its programs.

Although a relatively small Cabinet-level department in terms of number of employees--about 13,000--HUD's financial, economic, and social responsibilities affect many sectors of the economy and much of the nation's population. The following figures indicate the extent of activity in HUD's major programs. The first figure shows the effects of high 1980-82 interest rates on the number of homes insured and the dollar amount of FHA insurance issued by HUD. The second figure shows that major subsidized housing construction assistance programs are declining in response to the administration's efforts to deemphasize construction programs. The third figure reflects the relative leveling off of funding for HUD's community planning and development programs. The fourth figure shows an increase in fair housing and equal opportunity activity in terms of complaints received and processed from 1977 through 1982.



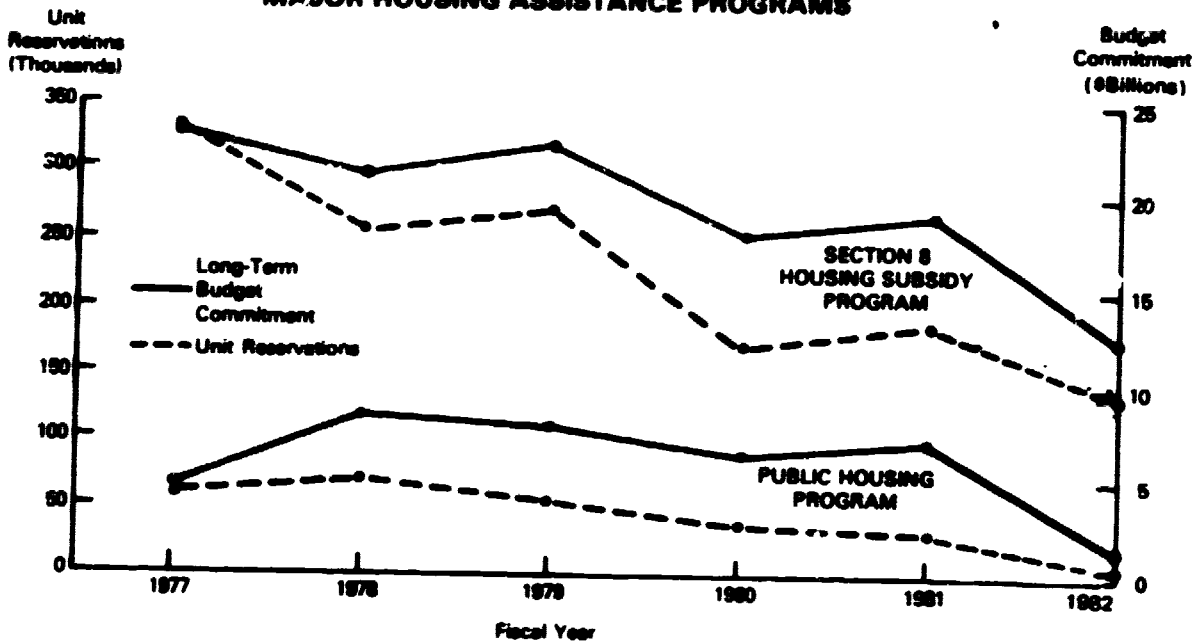
**Figure 1**

**FEDERAL HOUSING ADMINISTRATION  
(FHA) INSURANCE PROGRAM**

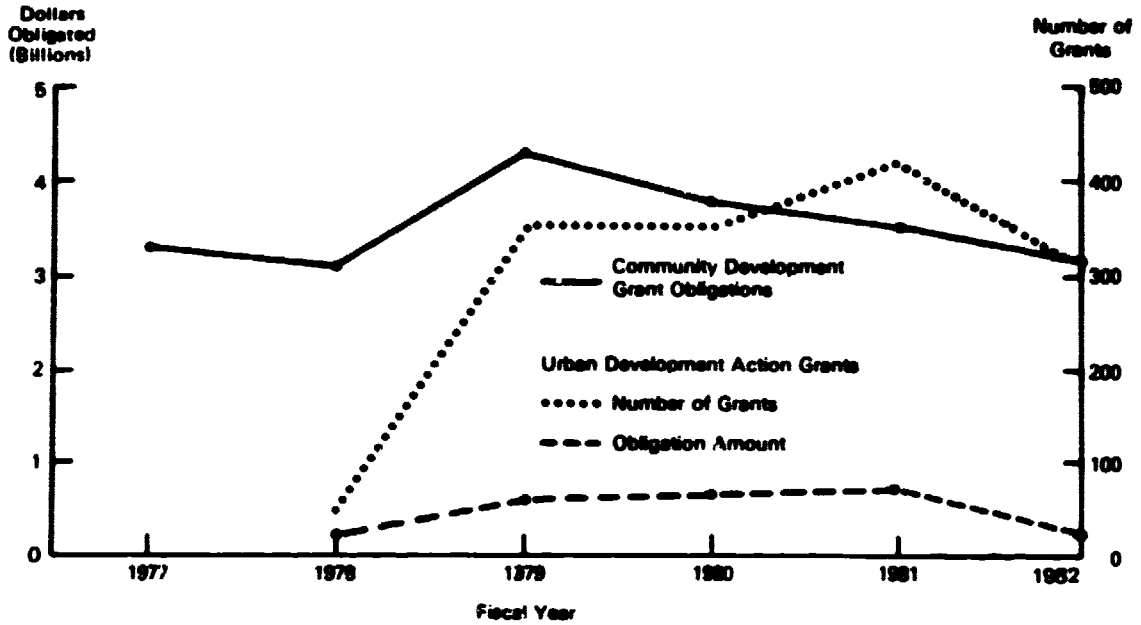


**Figure 2**

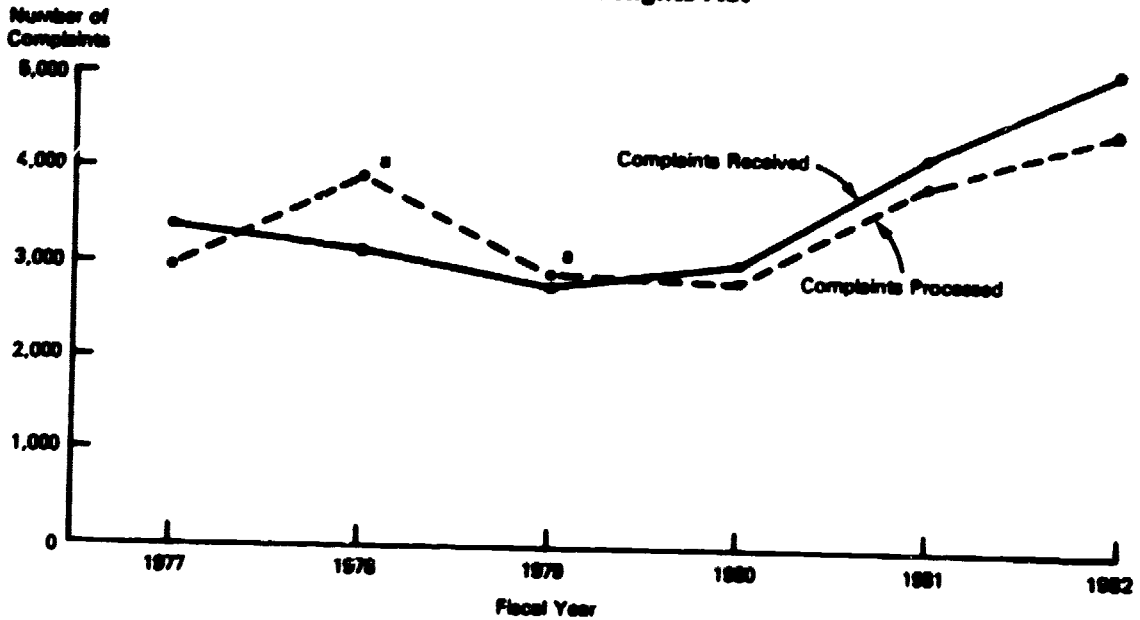
**MAJOR HOUSING ASSISTANCE PROGRAMS**



**Figure 3**  
**COMMUNITY PLANNING AND DEVELOPMENT PROGRAMS**



**Figure 4**  
**FAIR HOUSING AND EQUAL OPPORTUNITY PROGRAMS**  
**HUD Title VIII 1988 Civil Rights Act**



<sup>a</sup>More Complaints Were Processed Than Received as a Result of Carry-Over Complaints Received in Prior Years

HUD's current direction--  
managing for change

Since 1981, HUD has redirected its policies and programs to reflect administration goals of reducing the size and cost of the federal government, lessening the regulatory burden on program participants, delegating more responsibility to state and local governments, and placing greater reliance on the private sector. HUD has greatly reduced new construction programs, narrowed program eligibility requirements, transferred to most states the administration of the Small Cities Block Grant Program, and proposed an Enterprise Zone Program. Steps HUD cited as significant management improvements include (1) reducing budget authority and staff by phasing out some activities and limiting costs and (2) improving asset management by emphasizing control over waste, fraud, and abuse and collecting delinquent debts.

Major shifts in focus and direction are not new to HUD. Maintaining a smoothly functioning organization with a clear sense of purpose during change is a difficult and important responsibility of top managers, especially the Secretary.

The Secretary, however, has many responsibilities and obligations which affect the time he or she can devote to managing the agency. Each brings a distinctive management style and philosophy to the position. Some have devoted more efforts to managing HUD's daily operations, others have stressed policy responsibilities, while some have concentrated on congressional and public relations areas.

The current Secretary has stated that his management style is to look to his assistant secretaries to run the agency's daily operations. To be effective, this philosophy must depend on sound management processes, clear lines of authority, and an understanding of his personal style. However, management systems weaknesses prevent HUD from generating timely and reliable financial management data, and lines of authority are not always clear. Also, there is no focal point below the Secretary to coordinate financial management, planning, and other support systems. As a result, basic information needed to support decisionmaking and policy development, such as the amount owed HUD by debtors and the amount of insurance written in a single week, are not available or difficult to compile.

Persistent management problems remain a significant challenge to be overcome if HUD is to successfully manage its current policy and program direction. For example, a review of 48 of our past reports (selected from a total of 292 reports we issued on HUD from January 1976 to September 1982) and 7 Office of Inspector General (OIG) Semi-Annual Reports to the Congress from October 1978 to March 1982, identified a variety of management inefficiencies. Excerpts of our analyses, provided on the next pages, show that the effects of management problems are similar among program

areas, are repetitive, and transcend time and political philosophy.

Examples of Reported Management Problems

<u>Management area</u>	<u>Program effects</u>
Organizational structure	HUD's three-tiered organizational structure created red tape, slow service and incapacity to control losses (1977)
Planning and policy development	Greater financial risk was created because HUD underwriters did not adequately estimate project revenue and expenses (1978)  Unclear regulations resulted in higher program costs because unnecessary luxury items were included in section 8 subsidized housing projects (1980)
Monitoring field offices and program participants	Community Development Block Grant funds were not effectively used because monitoring was inadequate and grantees held funds in excess of needs (1980)  Inadequate HUD involvement in monitoring public housing authorities (PHAs) and providing technical assistance was identified as a central factor in poor PHA management (1982)
Communication or guidance	Collections were reduced on HUD-held home mortgages because guidance provided to field offices was inadequate (1979)  Improvements could be made in the Urban Homesteading Program if HUD worked more closely with local officials (1979)
Enforcement or compliance	Millions of dollars in Title I home improvement loans were not collected because collection efforts received limited emphasis by management (1981)
Training or staffing	Subsidized housing programs were poorly managed due to inadequate staffing to evaluate project applications (1980)  Property disposition practices were not adequate because many employees were not properly trained or used (1981)

<u>Management area</u>	<u>Program effects</u>
Financial management	<p>Information systems were not adequate to support mortgage insurance programs (1980)</p> <p>Title I single-family home improvement loans were vulnerable to fraud, waste, and abuse due in part to accounting weaknesses (1981)</p> <p>Adequate data systems were not established to facilitate evaluation of HUD's success in using millions to rehabilitate housing (1981)</p>

### III. SCOPE AND METHODOLOGY

We conducted our field work from March to December 1982. To gain a perspective on HUD's management effectiveness, we examined our past reports and those by OIG, consultants, and others. We also interviewed current and past HUD Secretaries, other former top HUD officials, and experts from groups served by HUD programs. Employees were interviewed at HUD headquarters in Washington, D.C., and at three regional and three area offices. Further, we examined critical management processes and functions at HUD such as planning, budgeting, policy development, accounting and financial management, and program evaluation and considered how these interfaced with current programs and administrative direction. In addition, we hired two consultants, knowledgeable in the field of public administration, who provided advice and expert opinions on our review methodology and the report.

Our review did not attempt to evaluate the reasonableness of housing policymaking activities external to HUD. The Secretary told us that much of HUD's housing policy stems from a 1982 report by the President's Commission on Housing, as refined by the President's Cabinet-level counsels. Similarly, the Secretary pointed out that the administration's priorities in urban policy can be traced to the President's National Urban Policy Report.

#### **IV. FINDINGS AND RECOMMENDATIONS**

**Finding No. 1: Achieving an Organizational Structure Compatible With the Evolving Federal Role in Housing and Community Development (See Volume II, p. 16)**

Over time, HUD's functions and authority in housing and community development have increased as has the federal investment in delivering programs. However, a major change in direction is underway and other changes are likely.

The administration's initiatives propose fundamental policy shifts in the way housing and community development programs will operate. The overall thrust is to reduce federal involvement and rely more on the private sector and on state and local governments. HUD has acted to (1) reduce its activity in housing production programs such as Section 8 Rehabilitation and Construction, emphasizing housing assistance through the Section 8 Existing Program administered by local public housing agencies, and (2) delegate to lenders loan underwriting services for insured mortgages. HUD has also proposed to replace most present rehabilitation programs with a state and locally administered new block grant for rental housing rehabilitation. In addition, the Congress has provided the states the option of administering the small city segment of the Community Development Block Grant Program.

In September 1983, in response to reduced workload and program changes, HUD reorganized its field office structure. However, the reorganization does not address all existing management deficiencies. Particularly, HUD needs to consider its reduced involvement in program delivery. Specifically:

- o Previous reorganizations have led to a complex relationship among levels of management. The result is that some confusion exists at all levels concerning authority, responsibilities, and functions. Consequently, services to clientele have suffered.
- o HUD's current structure needs to be more consistent with federal policies designed to shift responsibility to states, local governments, and the private sector. What may eventually emerge is a single responsibility to monitor and/or audit states, localities, and private contractors.
- o Organizational changes need to address longstanding management problems of accountability, timeliness and consistency of policy and program direction, and communications and whether HUD's three-tiered organizational structure is too complex for a reduced federal role in housing and community development.

Recommendation to  
HUD's Secretary

We recommend that HUD's Secretary evaluate how well the new field structure is working by determining:

- whether functional relationships among headquarters, regional, and area offices establish accountability and clear lines of authority;
- the value and contribution of regional offices to program management and delivery;
- the cost and benefits of maintaining field offices in all states, especially in the environment of a declining federal role; and
- the relationship between ongoing and proposed policy and program changes and any organizational changes.

Agency comments and  
our evaluation

HUD's Secretary commented that our report accurately characterized the changes in program direction the Department is experiencing and noted that the present organizational structure may not be entirely appropriate to the new direction. The Secretary, however, took issue with our draft proposal to reevaluate the appropriateness of the field reorganization by stating that the additional time needed for such study would only further delay the process of making needed staffing adjustments. The Secretary commented that the issues of field reorganization have been studied at length and believed that the reorganization will address other issues in the report. The Secretary finalized the proposed field reorganization on September 8, 1983.

We disagreed with HUD's field reorganization and stated so in two reports (GAO/RCED-83-100 and GAO/RCED-83-155) and in our May 26, 1983, testimony before the House Subcommittee on Housing and Community Development, Committee on Banking, Finance, and Urban Affairs. Since HUD has finalized its reorganization, our draft proposals are now moot. However, we do not believe the reorganization has fully addressed the problems discussed in this finding. Although we are not recommending that HUD's Secretary modify, at this time, the new field structure, we do believe the Secretary should evaluate how well it is working by addressing specific points contained in this finding. We have modified the recommendation to the Secretary accordingly.

Our position is also buttressed by the fact that HUD, as it notes in its comments, is (1) revising its operational planning system to provide direction to its field offices and (2) planning a pilot staffing analysis in the housing area to determine the types of skills which will be appropriate in HUD field offices.

Resolution of these actions are fundamental to establishing the appropriate size and organizational arrangement of HUD field offices.

Operational plans provide the mechanism for program and administrative accountability and communication between assistant secretaries and field office managers. Such accountability and communication are particularly important given HUD's organizational structure which has direct lines of authority from the field offices to the Secretary. Further, not having completed a staff analysis, HUD has no sound basis for making staffing adjustments.



**Finding No. 2: Enhancing Managerial Leadership, Accountability for General Management Functions, and Continuity Within HUD's Top Management Team (See Volume II, p. 137)**

HUD's Office of the Secretary implements major policy initiatives and, through the Secretary's actions and management style, sets the tone for managers and staff. This is not to suggest that a Secretary's management style must include overseeing day-to-day activities. Rather, the Secretary, through his or her actions and the agency's management processes and systems, demonstrates commitment or lack of commitment to effective and efficient management. We believe commitment can be enhanced by (1) an explicit statement of the agency's goals and objectives which outlines the Secretary's agenda and priorities for the coming years, (2) specific delegation of authority to a single focal point for the Department's general management functions, (3) the Secretary showing support for using and improving HUD's management systems and processes for decisionmaking, and (4) having an effective system which holds managers accountable for performance. However, HUD has problems in each of these areas. For example:

- o While the Department's priorities have been articulated through operating plans, they are not clearly linked to Secretarial goals and objectives.
- o No one person, including the Under Secretary, has been delegated responsibility for overseeing HUD's general management functions.
- o Much of HUD's planning and policy development occurs through the budget development process as contrasted with a well-established departmental management planning process that is clearly linked to Secretarial goals and objectives.
- o Essential general management functions are widely dispersed and need improvement as suggested by the following:

## Essential Management Functions Reviewed

<u>Function reviewed</u>	<u>Major improvement needed</u>
Budgeting	Need to better link budgeting to other management processes
Planning	Need to systematically coordinate agency planning efforts
Resource management	Need to reliably project future work force needs and match staffing needs with staffing resources
Program evaluation and monitoring	Need to coordinate evaluation efforts and use evaluation and monitoring results in decisionmaking processes
Program direction	Need to give HUD's field staffs clear and timely program guidance
Financial management	Need to develop systems which support departmental management; protect against fraud, waste, and abuse; and promote sound financial decisions

Top managers are political appointees and change with each new presidential administration. As a result, HUD lacks an "institutional memory"--that is, the continuity provided by senior executives who understand the causes of HUD's longstanding management problems and the implications of alternative solutions. Since HUD's creation in 1965, the average tenure of Secretaries and other presidential appointees, such as Under Secretaries, Assistant Secretaries, and the General Counsel, has been about 2 years. Furthermore, we found turnover is also high among the Senior Executive Service staff. For example, recently a key unit in the Office of Finance and Accounting has had four Directors in an 18-month period.

Although a new management team brings new policy and program initiatives and a fresh look at agency problems, people inside and outside of HUD have said that the frequent management changes deprive the agency of needed continuity. Officials from government and academia, among others, commented that our political system does not promote continuity, particularly at a level in federal agencies which can be accountable for results. While we found a consensus on the need for continuity in HUD's top management team, there were differing opinions on how the need should be satisfied.

To effectively address the issues of managerial style, accountability, and continuity, we offer three options, which in varying degrees address each of the issues.

1. The Congress could amend HUD's enabling legislation to create the position of Under Secretary for Management. The position would be filled by a nonpartisan presidential appointee, having excellent professional credentials and broad management experience, and be confirmed by the Senate. This Under Secretary would be accountable, by law, to the Secretary for developing, maintaining, and integrating HUD's management systems and the essential management functions such as management information systems, budgeting, planning, evaluation activities, and resource management. Creating such a position would eliminate the need for an Assistant Secretary for Administration. The Chief Financial Officer, later recommended in finding No. 3, would then report to the new Under Secretary. Creating this Under Secretary would give HUD a professional management capability within the Office of the Secretary. To enhance the possibility that an effective Under Secretary for Management would survive changes in HUD's leadership, the Congress could style the proposed amendment after the provisions of the Inspector General Act of 1978. The act provides that while an inspector general may be removed from office by the President, the President must communicate to both houses of the Congress the reasons for such removal.
2. The Secretary could strengthen the role of the Assistant Secretary for Administration by delegating to that official authority for all general management functions. Program assistant secretaries and regional administrators would look to the Assistant Secretary for Administration as the focal point for integrating HUD's managerial systems and for assuring efficient and effective performance of agencywide management functions. To achieve continuity, the Congress could amend HUD's enabling legislation to give the position permanency similar to what we suggested for an Under Secretary for Management or make the position a career-reserved Senior Executive Service position, filled by a nonpartisan person. The proposed Chief Financial Officer would also report to the Assistant Secretary.
3. The Secretary could create the position of Deputy Under Secretary for Management. Unlike the other options, this position would be advisory and would not have line authority. Thus, the proposed Deputy Under Secretary would serve as an advisor to the Secretary and Under Secretary on management issues and would neither have authority over nor be held accountable for general management functions. Rather, the Deputy Under Secretary would counsel HUD's two top executives to balance and integrate judgments on departmental management activities. This position could be a career-reserved Senior Executive Service position, filled by a nonpartisan person.

If the Congress creates an Under Secretary for Management, but does not add continuity to the position, we see merit in simultaneously creating the position of Deputy Under Secretary for Management. This way the Office of the Secretary will have a professional manager accountable for general management functions and a career civil servant to provide political appointees with a long-term institutional memory on basic management issues.

#### Matters for consideration by the Congress

In deciding how to improve HUD's managerial performance the Congress may want to consider creating the position of Under Secretary for Management, strengthening the role of the Assistant Secretary for Administration, or having the Secretary create the position of Deputy Under Secretary for Management. We recognize that a nonpartisan Under Secretary for Management may be a departure from our traditional political system. However, it offers a new initiative for enhancing the managerial leadership and performance at HUD. Creating such a position could also provide a benchmark for the Congress to use when considering ways to improve management in other federal agencies.

#### Agency comments and our evaluation

HUD generally agreed that there is a need for more management continuity and accountability. HUD preferred strengthening the role of the Assistant Secretary for Administration and increasing the involvement of the existing Under Secretary in the Department's day-to-day management. HUD said that management continuity could be added by creating a Senior Executive Service position of Chief Financial Officer, who would report to the Assistant Secretary for Administration.

HUD's preference is similar to our option two. Strengthening the role of the Assistant Secretary has certain advantages, such as requiring relatively little reorganization. However, it may prove to be less effective than option 1 in resolving the difficult issues of managerial commitment and accountability. Using the Assistant Secretary for Administration and the single Under Secretary may result in a "business as usual" approach to management improvement. Therefore, creating a nonpartisan Under Secretary of Management offers more promise for professionalizing and enhancing management performance at HUD.

**Finding No. 3: Improving Accounting and Financial Management  
(See Volume II, p. 112)**

The financial management information systems that support policymaking and program implementation have not kept pace with the needs of the Congress or HUD management. Although management has initiated a number of actions to improve these systems, it has not fully addressed the underlying causes of its systems problems. HUD can address these causes by creating a central direction for developing financial management policies and systems and by improving its long-range planning for automated systems.

HUD's management information systems are not providing timely and accurate data necessary to establish accountability for, and control over, housing and community development programs. Although HUD spends millions each year to gather data, much of the data cannot be relied upon for controlling and monitoring programs, and some information needed by managers is not always accurate, is untimely, or is not readily available. For instance, one insurance loan management system is used to identify multifamily housing projects headed for financial difficulties. However, the system provides untimely data and is of limited value in identifying trends indicating that financial problems are imminent. Such monitoring is essential because of the number of projects which default. Cumulative through September 30, 1982, HUD has written insurance for about 32,000 multifamily projects valued at about \$52.6 billion and, of this number, 13.8 percent (4,422 projects) have defaulted. This represents about 9.2 percent (\$4.9 billion in insurance claims paid out) of the total multifamily insurance written.

Accounting activities, like program functions, would benefit from better systems. Although HUD started automating its accounting systems in the 1950's, only about 40 percent of these systems have been fully automated and most of those automated are obsolete. Therefore, extensive manual effort is needed for accounting functions. Historically, accounting and financial management have received limited top management emphasis and lower priority in systems development. The result has been systems that are not

- o including necessary internal controls to adequately protect against fraud, waste, and mismanagement;
- o using efficient work processes; and
- o complying with principles and standards prescribed by the Comptroller General.

Additionally, accounting deficiencies have consistently prevented us from expressing an unqualified opinion on the reasonableness of the FHA fund financial statements. This condition has persisted despite expenditures of over \$27 million from 1975 through 1981 in an unsuccessful attempt to develop an effective automated accounting system for the FHA fund.

Recognizing these continuing problems, HUD initiated actions to make its systems more supportive of the needs of the Congress and management. These actions included:

--Reducing costs by using more efficient and effective systems. For example, by streamlining management systems and simplifying reporting, HUD expects to save over \$2 million annually.

--Acting to evaluate and improve internal controls. A team from the Office of Administration and the Office of the Inspector General performed vulnerability assessments of HUD's accounting systems and then reviewed, in greater detail, those considered most vulnerable to fraud and mismanagement. Efforts of this type will place the Secretary in a better position to report annually on the adequacy of the Department's internal controls, as required by the Federal Managers' Financial Integrity Act (Public Law 97-255).

Analysis of these management initiatives and their expected results, past studies, and our review of several HUD systems showed two underlying causes of system weaknesses:

--Accountability and responsibility for financial management is dispersed throughout HUD, leaving no central direction or focus below the Office of the Secretary. As a result, program decisions are not always made with adequate consideration of the financial impacts involved.

--HUD is not using long-range planning as a tool to define data processing goals and objectives in relation to HUD's changing policies and programs. Also, HUD is not setting priorities to achieve these goals and objectives or measuring results through systematic comparative analysis.

The central focus and direction necessary to provide cohesiveness among HUD activities and assure adequate consideration of financial implications can be accomplished by establishing a Chief Financial Officer. This individual would have overall responsibility for overseeing and coordinating the development of financial policies and systems. Further, this individual would be responsible for establishing accounting and financial management system integrity through continuation of recent management initiatives.

The diversity of HUD's programs and their related data processing needs make long-range planning essential. Although such planning is recognized as necessary for system development, HUD does not have an adequate plan for acquiring, managing, and controlling its data processing resources. Our review showed that HUD's basic planning process was related to the budget. Beyond the budget, we found no long-range goals or objectives for data

processing. The last such long-range plan was prepared in 1978 as part of HUD's efforts to upgrade its central computer facility.

The following example illustrates the need to maintain the long-range planning process. In April 1977, HUD decided to automate the process for underwriting single-family mortgage insurance. The project was to be completed in 1980 and cost about \$2 million. HUD planned to develop a system to handle insurance applications, including automating the process for property appraisals, mortgage credit analyses, and data interface with other automated systems. By December 1982, HUD's development costs were about \$7 million (with expected future development costs of \$4 million). However, in the midst of these undertakings HUD began to allow appraisals and some other mortgage processing functions to be provided by the private sector. Because HUD's management did not maintain its formal planning process, it did not begin to make system changes until after the development costs and workload had already changed.

#### Recommendations to HUD's Secretary

Because of the nature of the changes needed, we are making both short- and long-term recommendations.

For the short-term, we recommend that HUD's Secretary:

- Establish a Chief Financial Officer with clear responsibility and accountability to establish financial policy and provide a central focus to develop improved financial management systems.
- Correct identified internal control and financial management system deficiencies.

For the long-term, we recommend that HUD's Secretary:

- Centralize financial management policy development under the Chief Financial Officer.
- Continue efforts to restore integrity to the Department's financial management systems by enhancing internal controls.
- Streamline the processes used to accomplish accounting functions.
- Develop accounting systems which comply with the principles and standards established by the Comptroller General. The objective should be to establish accounting systems capable of providing timely, accurate, and comprehensive information and serving as a basis for reporting on the adequacy of internal controls as required by the Federal Managers' Financial Integrity Act.

--Enhance financial management information system improvements and future automation by establishing a long-term automated data processing planning and control process. As part of this process, the Secretary should assure that:

--Existing and proposed automated systems are necessary, feasible, and cost effective. Those systems which cannot perform their intended purpose in a cost-effective manner should be discontinued.

--User needs and administrative burdens are adequately considered during system development.

--Efforts to develop modern automated systems are continued.

#### Agency comments and our evaluation

HUD generally agreed with the need for improved financial management and stated that it has now taken a number of steps along the lines we recommend. These steps include completing a Financial Management Study which addresses many financial management problem areas in headquarters. Also, efforts are continuing to improve internal controls. HUD also stated that we neglected to recognize that its management information systems support program as well as accounting operations.

While we recognize the benefits HUD expects from its improvements to date, we believe the establishment of a Chief Financial Officer is essential to addressing the underlying causes of financial system problems. Also, in Volume II, chapter 4, and in this finding, we point to the importance of management information systems in the program as well as in the accounting operations. In this regard, we specifically point out in this finding problems HUD has in providing timely, accurate, and meaningful information for managing program operations. Our recommendations for improving financial management systems explicitly incorporate, as one subset, management systems used for program operations.



**Finding No. 4: Developing a Department-Wide Planning Process  
(See Volume II, p. 37)**

Planning and budgeting must play an important role if HUD is to successfully manage the transition from programs stressing production and growth to those emphasizing cost control, waste reduction, and reliance on private sector assistance. However, HUD's reliance on the budget development process as a mechanism for direction and control has not served as an effective substitute for needed systems to plan, develop policy, and communicate Secretarial expectations.

HUD is developing a new management plan process. While it is too early to predict whether the new process will adequately address all planning needs, it offers the opportunity to use strategic planning--multiyear Secretarial goals, realistic program objectives, and annual program priorities. The new process can also serve to establish the framework for budget formulation, annual operational guidance, and budget execution monitoring. Further, it can serve as a first line of communication with managers and employees at all levels and help provide more useful and timely data to HUD's clientele, legislators, and other interested parties.

HUD should also use the new process to specify achievable objectives and, over time, build evaluative data and information. Such an approach can strengthen the analytical base needed for making future decisions relating to specific objectives and, ultimately, for developing policy, presenting legislative and budgetary proposals, and monitoring results.

Our specific observations concerning the need for a systematic planning process include:

- o No entity within HUD develops or is accountable for agency-wide planning.
- o HUD's 1982 operational plans for field office direction (1) poorly defined some priorities, (2) contained priorities which conflicted with other guidance, and (3) were underutilized by top managers to hold staff accountable. For example, a field office met a Secretarial priority of increasing debt collection on a HUD loan program by expediting other HUD payments to the debtors, portions of which they then used to pay interest due HUD.
- o HUD's programs are usually implemented without the benefit of a systematic planning approach. No formal procedures for program planning exist and top management support for planning is not strong. The result is ad hoc and uncoordinated planning. For example, the transfer of the Small Cities Block Grant Program to the states will affect field office staffing needs, monitoring policies, and program administration, yet we could not find any plan which

considered these issues. Similarly, major changes in program direction--from housing production to relying on private sector support--can significantly affect staff skills and information system support.

- o The absence of a systematic approach to policy development has increased the risk of programs being designed which are not easily managed or are susceptible to fraud, waste, and mismanagement. For example, while HUD's housing voucher proposal was the product of research, discussion, and study including alternative approaches, analysis of what was needed in terms of resources and staffing was absent.
- o The need for long-range program planning is demonstrated by looking at one of HUD's guaranteed loan programs. Under Section 221, mortgagees can transfer to HUD loans in their 20th year and receive interest bearing debentures. In the multifamily area there are over 7,000 such mortgages assigned to HUD which we estimate could result in HUD pay-outs in debenture principal and interest of up to \$6.9 billion in the next 30 years. Also, there are over 400,000 such loans on single-family homes.<sup>1</sup> We found no plan which fully disclosed the potential impact on HUD outlays.

HUD would benefit by using a department-wide planning process. It could strengthen budget development, program planning, policy development, operational guidance, and budget execution monitoring.

Recommendation to  
HUD's Secretary

We recommend that HUD's Secretary build on existing efforts to improve planning processes by developing a department-wide planning system. This system should establish accountability for department-wide planning and include

- a multiyear Secretarial strategic plan,
- policy development procedures,
- program planning guidance,
- operational plans, and
- budget execution monitoring.

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<sup>1</sup>HUD proposed in its 1983 housing authorization bill to (1) eliminate the buy-back provision authorized under Section 221(g)(4) of the National Housing Act and (2) vest Government National Mortgage Association with the authority for receiving, servicing, and disposing of assigned Section 221 mortgages.

## Agency comments and our evaluation

HUD agreed that its budgeting process should be more closely linked to other management processes. HUD stated it has taken steps to do this. HUD also stated that its budget process was never intended as a substitute for other planning.

HUD added that our report contained a fundamental confusion about the nature of planning. In this regard, HUD noted that in its view there are two distinguishable kinds of planning with which our report is concerned. The first is that of long-term, agreed-upon, and carefully articulated goals and objectives. HUD points to goals and objectives reported to the President and its ongoing attempts to refine these goals within the context of existing and proposed legislation. The second kind of planning HUD notes at issue is operational planning, including budget and management planning for allocating resources. HUD agrees with our report that the second kind of planning processes need to be brought together and that it has been working on developing a new management plan and resource allocation system.

During the course of our review HUD did provide to the President a mid-term review document which sets forth HUD's objectives. The objectives, however, were not included in HUD's budget justifications nor linked to the "Secretarial Priorities" included in the operating plan provided to the field offices. As a result, the operating plan was underutilized by headquarters as part of a total system for measuring operational efficiency and holding subordinate units accountable.

HUD also disagreed with three examples we cite to demonstrate that the agency needs to improve its planning processes. In each example--the Vouchers Program, the Small Cities Block Grant Program, and Section 221 mortgages--HUD stated that planning has not been absent or inadequate, nor has HUD been remiss in notifying Congress of impending problems. Regarding the use of housing vouchers, HUD also stated that the example included in this volume was not consistent with that contained in Volume II. HUD further stated that the "political process" has a larger impact here than our report acknowledges.

In response, our review showed that overall HUD does not have a formal, written procedure that imparts to agency managers uniform requirements for planning. While planning was performed in each of the above-mentioned programs, it was of dissimilar quality and scope. We attributed this to a lack of departmental planning requirements. In the case of housing vouchers, we have revised this volume to show that HUD's proposals were the product of research, discussion, and study including a comparison of alternative approaches to housing low- and moderate-income persons. However, HUD did not consider what would be required in the way of resources and staffing to effectively implement a

vouchers program. Determining the likely impacts that new policy initiatives will have on organizational operations should be an integral part of a systematic planning process.

Similarly, we found program planning deficiencies in HUD's implementation of the Small Cities Program. While HUD's program staff told us that transferring this program to the states would significantly affect HUD's field workload and staffing needs, we could not find a HUD plan which dealt with these management issues. HUD stated in its comments that no formal, long-term planning existed for the transfer because HUD could not anticipate the exact legislative changes. We recognize it is generally not possible to predict precisely the legislative requirements which the Congress will mandate; however, a primary purpose of planning is to allow an organization to anticipate future occurrences so that it can better deal with the eventual change. To address change only after it occurs presupposes a reactive or ad hoc approach to management.

Concerning Section 221 mortgages, HUD disagreed that it was either an example of a planning deficiency or of HUD's not fully disclosing to the Congress the mortgages' potential contingent liability to the government. HUD added that it has continuously sought to bring this matter to congressional attention and has succeeded in getting proposed legislation to provide for direct sale through GNMA of assigned mortgages as they come due.

In response we have revised our report to explicitly recognize that HUD has spearheaded the proposed legislation which would (1) eliminate the buy-back provision authorized under Section 221(g)(4) of the National Housing Act and (2) vest GNMA with the authority for receiving, servicing, and disposing of assigned Section 221 mortgages. However, the issue of full budgetary disclosure regarding the potential cost impact of the 221(g)(4) assignment provision remains. In this regard HUD, in its 1984 budget justification, "assumes the enactment of legislation which would eliminate the buy-back provision authorized under Section 221(g)(4)." However, the budget presentation is not clear regarding the potential long-term cost for (1) existing Section 221 mortgages for which legislation could not retrospectively apply and (2) future cost, should legislation not be enacted. Similarly, HUD has not developed an alternative management plan should legislation, which would turn responsibility for servicing and disposing of assigned Section 221 mortgages over to GNMA, not pass.

In summary, in discussing and reviewing the planning systems and processes HUD uses as a means for providing direction and control, we found two. The first and primary one was the budget process. The second, discontinued during our review, was an operating plan which translated budget decisions into "Secretarial Priorities" with associated field office organizational responsibilities and resource commitments. Neither of these provided a systematic approach for (1) communicating agency-wide direction

chosen by the Secretary, (2) developing policy alternatives, or (3) establishing program direction and feedback.

Our recommendations for improving HUD's planning process build on HUD's existing efforts to develop a management plan--a plan which has as its key elements the aspects that HUD suggests are confused in our report.

**Finding No. 5: Budgeting and Legislative Processes Affect HUD's Management (See Volume II, p. 53)**

Consequences associated with short budget and legislative cycles, coupled with delays in funding, contribute to problems for HUD management. The short legislation-authorization periods for many HUD programs permit a short-term focus and uncertainty beyond the authorized period. Since the primary focus is on the annual cycle of events, HUD program managers and program recipients do not systematically consider long-range planning. Further, delays in receiving appropriated funds, a common problem for HUD and many other agencies, also contribute to late communication of budgetary priorities to program staff.

HUD experienced late enactment of appropriations bills 19 times in the 21-year period from 1962 to 1982. Consequently, operational guidance and program implementation were delayed. Late funding not only hampers agency managers in setting priorities and allocating resources but also affects the people HUD serves. For example, delayed funding prevents many of the nation's 2,700 public housing authorities from operating efficiently. These authorities received subsidies totaling about \$1.2 billion in fiscal year 1983 to pay for utilities, maintenance and security for the over 1 million families they house. The uncertainty surrounding delayed funding prevents authorities from engaging in meaningful budget planning which increases the risk of poor security and further deterioration of buildings and equipment.

The uncertainty caused by short-term budget and legislative cycles and delayed authorizations and funding has also adversely affected HUD's ability to perform long-range planning. The need to plan for the long-term implications of HUD programs is growing. For example:

- o The success of HUD's proposed Housing Vouchers Program, slated to replace the Section 8 Program, may depend on the prices and nature of the future rental housing supply.
- o Grants for rehabilitating rental housing can displace families, causing hardship for these families and other unintended side effects.

Time constraints of the budget process also affect policy development. Meeting budget deadlines may force incomplete or unacceptable policy proposals. For example, a senior official in HUD stated that time constraints prompted HUD to submit to OMB and the Congress a housing voucher proposal which HUD knew was not the best possible product. While we could not determine why the Congress did not approve this proposal, it is clear that short time frames contributed to HUD forwarding an incomplete proposal.

From an agency's perspective, these problems are largely unavoidable and can be solved only by changes to the external processes. These changes may require a long-term focus, but their

need has been recognized as evidenced by recent budget reform debate. We have previously reported that government-wide priority should be attached to better multiyear budget planning to achieve long-term budget control.<sup>2</sup> Some of the actions previously proposed include

- multiyear legislative authorizations instead of 1-year or no-year authorizations,
- clearer statements of policy and program objectives in authorizing legislation, and
- extended time horizons of information in the budget to facilitate more foresighted planning.

Matters for consideration  
by the Congress

HUD provides the Congress with a useful case study when considering federal budget reform issues such as biennial budgeting and multiple-year authorizations. The short-term nature of the budget process, in part, hampers HUD's ability to plan its programs effectively, inhibits operational guidance, and leads to incomplete policy development. Frequent funding delays cause delays in program guidance and disrupt agency operations.

Agency comments and  
our evaluation

HUD deferred commenting on the budget process issues we suggest the Congress consider. HUD added, however, that it was not alone in feeling constraints on operational planning because of budget deadlines.

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<sup>2</sup>Federal Budget Concepts and Procedures Can Be Further Strengthened (PAD-81-36, Mar. 3, 1981).

**Finding No. 6: Improving the Analytical Data Base Used to Support Budget Development and Execution Monitoring (See Volume II, p. 58)**

The "analytical base" of the budget is the complex mix of quantitative information needed to support the Department's budget development and to monitor and analyze the execution of programs. Changes underway in the three major components of the base-- accounting and financial, resource management, and evaluation data--appear to be positive steps to increase the credibility of HUD's budget.

- o Management is moving to improve the consistency and accuracy of the analytical data by standardizing and upgrading HUD's accounting systems (see finding no. 3).
- o Based on a recent study to assess major components of the HUD resource management system, including the work measurement system, management decided to revise the system used to justify staffing requirements.
- o HUD's Secretary, recognizing the need for improved coordination and greater use of program evaluation in decision-making, has called for greater central direction and increased coordination.

Currently, however, preparation of budget data requires extensive manual effort. HUD's 58 appropriation accounts are controlled by many accounting systems. At the time of our review these systems included

- the Federal Housing Administration fund system which had three major automated segments with 15 subsystems under development or planned;
- three major automated systems which included some manual aspects and collected data on 30 appropriation accounts; and
- 27 manual systems which collected data on HUD's other appropriation accounts.

These systems limit HUD's ability to respond to special data needs and requests because they are not fully integrated and information must be compiled manually. For example, budget reports on program activities cannot be compared to planned accomplishments until several weeks after the reporting period.

Accuracy or unavailability of data is another financial management information systems problem that affects the budget process. Managers in HUD, the Office of Management and Budget, and congressional committee staffs all cited the inaccuracy or unavailability of HUD accounting data as a longstanding problem. For example, HUD's budget process is not fully integrated with



accounting for salaries and expenses. Although these costs exceed \$500 million annually, HUD does not allocate these costs to program appropriation accounts. Instead, HUD uses two nonintegrated systems for employee time reporting:

--The payroll system accumulates cost data based on the organizational structure.

--The employee time reporting system accumulates data based on workload items.

Consolidating these systems in a way which would identify appropriation program accounts would provide HUD a basis for allocating overhead costs for all programs. Currently, only costs of Federal Housing Administration programs are allocated. The full costs of operating many HUD programs are not readily available.

At the time of our review, HUD was developing a system to compute work force needs based on workload estimates and current work standards. Because the new system is under development, it is too early to tell if it will provide the information needed to effectively support the HUD budget process.

In HUD's development and implementation of program evaluation, we found evidence of efforts to link evaluation to the decisionmaking process and to make evaluation timely and responsive. It is clear that the Secretary has called for program evaluation to play a more important role in decisionmaking. However, the quality of HUD program evaluation has not progressed to the point where it can be a meaningful contributor to budget analyses and monitoring. The budget process needs timely and appropriate analytic information to assist decisionmakers in making resource allocations and other policy judgments. An effective evaluation function can supply such information.

One of the most important uses of the analytical base is to monitor and analyze program and financial data and compare this data with budget and operational plans. However, budget execution monitoring was limited because of the problems listed above and because:

- o No centralized function exists at the Department level to assess program performance.
- o Budget offices only monitor gross outlays and obligations, largely for overall budgetary control purposes.

Budget execution monitoring is not only consistent with but an important part of a management philosophy to strengthen cost controls. It can provide a systematic approach for holding managers accountable by comparing program performance against plans through variance analysis, and providing input to top managers to adjust future program and funding goals.

Recommendation to  
HUD's Secretary

We recommend that HUD's Secretary enhance the analytical base of the budget by:

- continuing efforts to develop and improve financial management systems that integrate budgeting and accounting,
- developing a system to obtain the information necessary to determine and allocate workforce requirements and assess productivity, and
- using program evaluation data more systematically in the management decisionmaking process.

Agency comments and  
our evaluation

HUD commented that efforts are well underway, as the report points out, to improve systems, integrate budgeting and accounting, and develop information necessary to allocate staffing.

HUD disagreed with our position that accumulating salaries and expenses in a single account limited the availability of information for budget and internal management purposes. HUD also stated that budget justifications were discussed in detail by organizational element.

We have revised our report to recognize that funds for salaries and expenses are appropriated in a single account. Further, HUD's efforts to integrate its budget and accounting systems are positive. However, HUD's response does not address our point that it is desirable to fully disclose the costs of operating HUD programs. While the Congress has established a number of appropriation accounts to control HUD programs (see Volume II, appendix X), HUD does not allocate the salaries and expenses account to most programs. Therefore, the full cost of operating these programs is not readily available. As both the Congress and HUD management must make decisions on the viability of programs, the inability to tie expenditures to specific areas or programs limits support of budget justifications and the information available for internal management.

**Finding No. 7: Expanding and Strengthening Budget Justification to Enhance Congressional Control (See Volume II, p. 67)**

Congressional control of the federal budget is strengthened when there is full and accurate disclosure of current and projected future costs and contingent liabilities resulting from program actions. The magnitude, design, and the funding practices associated with certain aspects of HUD's budget presentation create control problems.

- o HUD's long-term commitments for assisted housing programs have created obligations for future outlays of nearly \$206 billion.
- o HUD has a contingent liability of about \$280 billion in guaranteed and insured loans--well over half of the federal government's total contingent liability.
- o HUD has (1) indefinite periods in which to obligate some funding and (2) permanent contract and borrowing authority which are reconstituted without congressional action.
- o Tax advantages used with HUD programs can result in federal revenue losses.

One of the features of HUD's budget that affects controllability is the large commitments the federal government has made through HUD programs which must be paid off in the future. Most of HUD's \$206 billion in future obligations is in the subsidized housing area. These amounts require special scrutiny by HUD management and the Congress because the obligations may not be firm and, therefore, may overstate the need for funding. For example, OIG's March 1982 semi-annual report to the Congress disclosed that HUD had obligated over \$15 billion for 15 months or longer, without starting construction on 2,600 multifamily projects.

HUD's contingent liability for guaranteed and insured loans allows HUD to use permanent borrowing authority to draw down on Treasury funds to satisfy its commitments. While the amounts of guaranteed and insured loans are identified in the budget, certain program provisions should make HUD management and the Congress increasingly aware of the budgetary impact. For example, the HUD budget does not fully disclose the potential impact on HUD of outlays for certain mortgages that could be assigned to HUD. We estimate that for the approximately 7,000 multifamily mortgages assignable to HUD by the year 2003, HUD could be required to pay

out as much as \$6.9 billion in debenture principal and interest over the next 30 years.<sup>3</sup>

Congressional control of the HUD budget is further limited by large unobligated balances available from year to year and by large amounts of obligational authority not controlled in the appropriation process. During fiscal years 1979-83, for example, HUD estimated that its unobligated balances ranged from \$10 billion to \$22.6 billion. These amounts represent both carryovers from no-year funds and deobligations. If it desired, the Congress could provide that such funding lapse, be rescinded, or decrease the amount of funding in any particular year. Because such actions could be interpreted as a way to decrease program funding, it may be politically difficult to achieve them.<sup>4</sup> Another alternative would be to change the no-year funding to annual or multiple-year funding. We generally support timed funding unless there are compelling reasons to provide funds until expended.

The assisted housing area is another example of funding practices which limit congressional control. From 1937 until the Congressional Budget Act of 1974 was enacted, the Congress gave HUD approximately \$2.9 billion in permanent contract authority to make long-term commitments. HUD then reuses the amount of available contract authority--first generated by payment of obligations on contracts entered into prior to 1974. Further, this rejuvenated contract authority can be transferred into budget authority in an amount 40 times greater than the original contract authority. This occurs because HUD uses this authority to enter into contracts for up to 40 years.

The Congressional Budget Act of 1974 requires all new budget authority to be subject to annual congressional budgetary control. However, as stipulated in that act, any permanent contract authority available prior to enactment of the 1974 Budget Act, including HUD's old permanent contract authority, may still be used without being subject to this annual control. The Congress loses control because the contract authority, which is generated by payment of obligations on contracts entered into prior to the act, automatically becomes available to HUD.

Also, the cost of some HUD programs is not fully disclosed to the Congress. For example, HUD programs permit public housing authorities to issue tax-exempt bonds. However, Treasury tax receipts are substantially reduced as a result of outstanding

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<sup>3</sup>Our estimate is based on assumptions further described in our October 24, 1983 report (GAO/RCED-84-40).

<sup>4</sup>The Urgent Supplemental Appropriation Act of 1982 (Public Law 97-216) limits HUD's ability to terminate the reservation of contract authority under certain circumstances.

tax-exempt securities issued by the public housing authorities. These securities exceeded \$10 billion as of May 1982. HUD would need Treasury's assistance to determine the projected reduction of Treasury receipts.

### Recommendation to the Congress

We recommend that the Congress require HUD to expand its budget justifications to fully reflect (1) all material aspects of uncontrollable costs and (2) the budgetary consequences of programs on future agency funding needs and on federal tax collections. The Congress could do this by:

- requiring HUD to submit a credit budget (1) summarizing all credit activities, (2) identifying situations which could materially affect HUD management and future funding, such as mortgages which can eventually be assigned to HUD, and (3) laying out basic assumptions on economic conditions such as mortgage interest rates and loan default rates;
- requiring HUD to obtain Treasury assistance and report expected losses of federal revenues on funding activities such as tax-exempt notes; and
- reassessing HUD's need for permanent contract authority for selected programs.

### Recommendation to HUD's Secretary

We recommend that the Secretary examine those obligations which may not be firm commitments and make appropriate deobligations to improve the credibility of HUD budget estimates and to free unneeded funding.

### Agency comments and our evaluation

Concerning our recommendations to the Congress on increasing and enhancing the HUD budgetary information, HUD stated it did not believe that adding more material to budget justifications on the Department's long-term costs and contingent liabilities would help. HUD also stated that it accounts for and justifies all pre-1974 contract authority and that the Congress releases such authority in appropriation acts. HUD said it did not disagree with our recommendation to review its obligations. It stated, however, that our report overlooks restraints on the deobligation process.

Our recommendation that the Congress require certain additional material in HUD's budget justification is based on the perspective of overall federal budgetary control. For example, as we pointed out in figures 3-4 and 3-5 (Volume II), HUD's obligated balance is over 40 percent of the total federal balance; and HUD's

guaranteed loan balance is well over 50 percent of the federal total. A relatively uncontrollable budget of HUD's magnitude limits the government's choices concerning distribution of funds. Further, as we discussed, HUD's budget does not fully disclose various budget and economic consequences of HUD's loans and loan guarantees. Reduced revenues and increased tax costs due to future loan defaults are two examples. The Congress needs such information to make informed budget decisions.

Regarding the issue of pre-1974 contract authority for assisted housing, we recognize that the 1974 Budget Act excluded pre-1974 permanent contract authority and that HUD does include this authority (not the expanded amount) in the budget figures it sends to the Congress. However, because of the materiality of the expanded amount of pre-1974 authority and its effect on the controllability of HUD's total budget, we continue to believe that congressional budget analysts and decisionmakers should be provided more complete budget justifications reflecting the budgetary and economic implications of the assisted housing program.

HUD further stated that the Congress releases pre-1974 budget authority in appropriation acts. We disagree. Permanent contract authority provided before passage of the 1974 Budget Act is available without congressional action. While prior years' authority is considered in determining an agency's new budget authority needs, it is not necessary to include such funds in amounts appropriated. Therefore, it is not controlled in the annual budget process.

HUD also commented that we overlooked congressional restraints imposed on the deobligation process which limit HUD's ability to deobligate certain funds. We have revised our report to recognize that the Congress restrained HUD's ability to terminate a reservation of contract authority. Nonetheless, obligations which are not firm commit budget authority unnecessarily. Since there is competition for budget authority, not only with HUD's budget but within the total federal budget, the requested amounts of obligations from year to year affect decisions about the allocation of budget authority. This underscores the continued need by HUD's management and the Congress to review obligations which are unlikely to result in funds being expended in the near future.

Comments raised by HUD regarding the impact of contingent liabilities of the Section 221 Program were addressed under finding number 4.

**Finding No. 8: Providing Effective and Timely Guidance to Field Offices and Program Participants (See Volume II, p. 88)**

HUD does not provide its field offices with accurate, clear, and up-to-date guidance for delivering programs and monitoring grantees and other performers. Handbook instructions, especially for housing programs, are often poorly written, obsolete, and not timely distributed. As a result, there is little assurance that HUD's programs are being efficiently and consistently administered and confusion exists among users regarding program handbook requirements. The Department has not provided effective program guidance and this is part of a general pattern of poor communications between headquarters, regional offices, and area offices.

Program instructions do not reflect the overall agency priorities and direction desired by the Secretary and top management. Part of the reason for this is the cumbersome process by which instructions are drafted, reviewed, cleared, and distributed to users. Instructions can take many months to develop and distribute.

- o Sometimes program instructions are poorly written which confuse those who rely on HUD guidance for direction and policy. A significant problem in many handbooks is their organization. Matters of policy are embedded in detailed procedures, with procedural direction scattered throughout unrelated sections. Another problem is the large number of obsolete handbooks. In 1982, for example, Office of Housing staff identified 89 instruction manuals for cancellation. Also, some older manuals have been revised dozens of times by issuing piecemeal changes. These revisions need to be consolidated to improve clarity and understanding.
- o The Department's clearance process is often cited by program officials as being the chief culprit for long delays in issuing instructions. A single office can unreasonably prevent timely clearance of documents.

HUD managers acknowledge these problems and efforts are being made to improve. Some instructions are being rewritten and clearance procedures are being tightened under a new system. However, substantial improvement is hampered by the relatively low priority accorded these issues and frequent program changes which require new instructions.

**Recommendations to HUD's Secretary**

We recommend that HUD's Secretary:

- Expand the use of internal editing staff to rewrite existing instructions.
- Involve users, such as field office staff, in the preparation of instructions.
- Establish a central accountability point to oversee compliance with streamlined departmental clearance procedures.

Agency comments and  
our evaluation

HUD agreed that it has continuing problems with providing clear and timely program delivery guidance to HUD field offices and program participants. HUD is taking some corrective actions such as eliminating obsolete or redundant guidance, simplifying handbooks, and speeding the clearance process. We believe that the actions HUD has already taken, along with implementing our recommendations, should significantly improve HUD's performance in this area.



**Finding No. 9: Measuring and Monitoring Program Performance and Results (See Volume II, p. 92)**

Monitoring program participant performance is a priority and positive steps have been initiated to overcome past problems. HUD is not, however, effectively evaluating the performance of its field staff and continues to have difficulty in monitoring program delivery by its grantees and other performers.

- o On-site reviews of HUD's field performance, which are the basis for measuring the quality of work and thus establishing accountability, suffer from a myriad of problems. For example, HUD has not developed standards for reviewing performance and has no consistent strategy to systematically review headquarters program offices and field offices. Further, headquarters review teams lack incentives to report serious program deficiencies since the teams are drawn from offices that design the programs. As a result, the quality of review reports varies, and managers are missing an opportunity to hold field offices accountable. HUD is currently examining OIG recommendations for improving the review process.
- o In response to persistent reports on monitoring deficiencies, HUD's Committee on Fraud, Waste, and Mismanagement studied and reported on issues relating to HUD's monitoring of program participants. The Committee stressed the need to improve staff capabilities by providing more effective guidance and training, placing more priority on the importance of monitoring, and clarifying the role and purpose of monitoring.

Regarding the Committee's work, some important issues were not effectively addressed by HUD. These include

- improving staff capabilities and clarifying what is to be expected from monitoring,
- setting priorities which emphasize the quality rather than the quantity of monitoring, and
- using sanctions as a tool for holding grantees and other performers accountable for their actions.

**Recommendations to HUD's Secretary**

We recommend that HUD's Secretary improve performance reviews by:

- developing standards and guidelines for reviews to obtain a reasonable level of consistency and comparability,

--adopting a plan for reviewing offices and programs that considers resource limitations and concentrates on serious problems, and

--including headquarters program offices in the universe of offices reviewed.

We also recommend that the Secretary improve monitoring by adopting the recommendations made by his Committee on Fraud, Waste, and Mismanagement. Particular attention should be given to clarifying the role and expectations of monitors, given the nature and direction of HUD's programs.

Agency comments and  
our evaluation

HUD agreed with our recommendations on improving its monitoring of program participants and its on-site performance reviews and is attempting to correct the deficiencies we cited.

**Finding No. 10: Assuring That Program Problems Uncovered From All Sources Are Effectively Corrected (See Volume II, p. 99)**

HUD does not systematically analyze or set priorities for resolving and overseeing actions taken in response to problems uncovered by the many reviews, audits, and evaluations of HUD programs and procedures. Each year, thousands of findings are reported in reviews and audits by us; outside interest groups; the Inspector General; independent public accountants; on-site reviewers; and monitoring reports and assessments by HUD staff on fraud, waste, and mismanagement issues. These findings relate to virtually all aspects of managerial behavior--the Inspector General alone reported over 8,000 findings for the 12-month period ended March 31, 1982.

HUD lacks a focal point to consolidate and analyze deficiencies reported from all sources, set timetables and priorities for resolution, and develop a department-wide mechanism for tracking and controlling findings and ensuring progress toward resolution. Such a system would also provide insights to identify major causes of program problems and might suggest ways to avoid future management deficiencies.

GAO found such recurring management problems as:

- o Inconsistent resolution of findings. For example, HUD program staffs gave more attention to resolving findings in audit reports by the Inspector General, GAO, and independent public accountants than findings reported from headquarters and regional office review of field office performance.
- o Questionable management efforts to correct underlying deficiencies. For example, the Inspector General has reported that agency managers frequently fail to take corrective action despite promises to do so.

Inconsistent finding resolution, coupled with the volume of reported deficiencies and the cost to correct each problem, suggests a need to better manage the process of clearing findings. Such a process could involve ranking findings from all sources, setting timetables for completion, developing uniform standards for clearance, and evaluating corrective actions in the context of a total departmental strategy. Responsibility for following up on findings should be fixed at a top management level to assure prompt and serious attention to correcting deficiencies.

**Recommendation to HUD's Secretary**

To improve the process of resolving deficiencies, we recommend that HUD's Secretary develop a system to set priorities and time frames for responding to deficiencies from all sources and

establish a focal point for assessing and reporting on the progress toward resolving findings.

Agency comments and  
our evaluation

HUD stated that our recommendations will be effectively addressed by its efforts to improve internal controls in response to OMB Circular No. A-123 and the Federal Managers' Financial Integrity Act. HUD said that its new system of internal controls incorporates all known reviews, audits, and evaluations in determining vulnerable areas.

While we support HUD's efforts to improve its internal controls, we continue to believe our recommendations are needed to improve the usefulness of audits and reviews to HUD management. First, HUD's system is still being developed and will not be fully implemented until sometime in fiscal year 1984. Second, while the system is designed to categorize and rank audit and review findings, it will not necessarily establish accountability and timeframes for corrective action, as we recommend. Further, the system will exclude findings relating to policy matters, since the internal control standards adopted pursuant to the Federal Managers' Financial Integrity Act are not intended to cover agency policymaking.

**Finding No. 11: Developing Staff Skills to Improve Program Delivery (See Volume II, p. 102)**

HUD continues to have problems in developing the right skills and expertise for many of its program areas. Rapidly changing organizational needs, coupled with workload changes and clerical shortages, are further straining HUD's efforts to improve its staffing. Various staffing inadequacies continue to take their toll on HUD's ability to monitor its programs and grantees for fraud, waste, and mismanagement and to provide technical assistance to grantees and other performers.

- o Over the past several years we, the Inspector General, and others have consistently attributed many of HUD's program delivery problems to inadequate and poorly trained staff. For example, (1) HUD's Fraud, Waste, and Mismanagement Committee cited inadequate skills as a major reason for poor monitoring, (2) an official participating in a conference of community planning and development directors concluded that HUD's most pressing organizational issue is the placement of staff in the right position to meet changing needs of the Department, and (3) in one area office HUD was spending more than \$1 in salary costs for each dollar collected and a contributing factor may have been the acknowledged poor training of debt collectors. Our discussions with area and regional program staff showed that staff training was a critical field office need, a reflection that field personnel are not prepared to meet HUD's changing policy and program direction. Groups served by HUD programs also cited staffing inadequacies as a major HUD problem.
- o HUD does not forecast long-range personnel requirements department-wide. Current planning estimates are short range and occur only as part of the annual budget process.
- o HUD does not formally assess training needs or evaluate training results. Consequently, it cannot determine if current training efforts improve staff capabilities. Such efforts are crucial to HUD's success in shaping a workforce to meet changing program directions.

Management recognizes the need for a systematic planning approach to determine long-range staffing needs and guide its efforts in improving staff capability. A study team was proposed to analyze Housing's staffing and skill needs and assess training requirements. This study represents an opportunity for management to integrate needs and requirements with operational plans.

**Recommendation to HUD's Secretary**

Improved staff skills through training and other staff development activities is an important management activity which

transcends the typical tenure of politically appointed managers. HUD needs to develop a long-range focus on staff development if program delivery constraints are to be effectively addressed. To improve staff resources over the long term, we recommend that HUD's Secretary:

- Establish a staff development planning program linked to overall organizational planning, which will coordinate departmental efforts to forecast personnel needs.
- Integrate staff needs assessments with program implementation plans.
- Develop an aggressive training needs assessments program, including periodic training evaluations.

Agency comments and  
our evaluation

HUD said that it is planning, on a pilot basis, to analyze staffing skills and needs in the housing area. If successful, HUD said it will extend the effort to other parts of the agency. Additionally, HUD said its Office of Training is working on determining skills which will be needed to meet new program directions. We support these efforts and believe that they are important parts of our recommendations. In this regard, however, by further linking staff skills analysis to HUD's proposed management plan process noted in finding 4 and to overall organizational planning noted in finding 1, HUD's management will be provided with a systematic approach to match staff capabilities to program, organizational, and training needs.

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BY THE COMPTROLLER GENERAL

# Report To The Congress

OF THE UNITED STATES

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## Increasing The Department Of Housing And Urban Development's Effectiveness Through Improved Management

### VOLUME II

This is the first in a series of GAO reports evaluating management effectiveness at major federal departments. The Department of Housing and Urban Development (HUD) is striving to better manage its programs and achieve its current objectives of (1) reducing waste, fraud, and mismanagement, (2) controlling costs, (3) deregulating, and (4) relying more on the private sector. Management initiatives are required to address the underlying causes of continuing problems in several key areas. These areas include organizing, planning, budgeting, program delivery, and accounting and financial management. GAO found a need to:

- Place more emphasis on general management functions, such as planning, staff training and development, and financial management.
- Strengthen accountability for general management functions
- Build an organization with greater stability
- Establish continuity within HUD's top management team

HUD is working hard to resolve many of its problems, and GAO offers recommendations to the agency and the Congress to complement that effort.



**GAO/RCED-84-9**  
JANUARY 10, 1984



COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON D.C. 20548

B-208122

To the President of the Senate and the  
Speaker of the House of Representatives

This report is the first in a series evaluating the management at major federal departments. It discusses management effectiveness at the Department of Housing and Urban Development (HUD). The purpose of this review was to analyze HUD's management, identify and analyze problems, and make recommendations to improve any shortcomings. An executive summary is provided in Volume I.

We concentrated our efforts on HUD's organizational structure; accounting, financial, planning, and budget functions; and program delivery. While we found that HUD is striving to make improvements, we suggest further ways to increase program effectiveness through management efficiency.

During this review HUD's Secretary and his staff gave us full support and cooperation. We obtained the Secretary's comments on the report and incorporated them where appropriate. He agreed with many of our recommendations.

We are sending copies of this report and our executive summary to the Secretary, Department of Housing and Urban Development; the Director, Office of Management and Budget; and interested congressional committees, subcommittees, and individual members of Congress.

A handwritten signature in black ink that reads "Charles A. Bowsher".

Comptroller General  
of the United States



D I G E S T

The Department of Housing and Urban Development (HUD) has played a major role in upgrading the nation's housing and providing community development aid to cities and counties. HUD's performance in operating its multibillion-dollar programs could be strengthened by improvements in general management functions including organizational structure, planning, staffing, financial management, and program monitoring.

GAO reached this conclusion after analyzing reports by GAO, HUD's Inspector General, and others on HUD's program performance and examining management conditions. GAO conducted its review with the full support and cooperation of HUD's Secretary and his staff.

GAO's purpose was to (1) identify and analyze management problems and their underlying causes and (2) recommend improvements to the Congress and HUD, recognizing and complementing management and program initiatives already underway. In this regard, for example, HUD has increased its efforts to prevent fraud, waste, and mismanagement and to improve cost control. This volume is the full report of GAO's review, with an Executive Summary appearing in Volume I.

GAO observed that many of HUD's specific management problems are complex and longstanding. While HUD has begun to address some of its problems, success will be elusive unless the Congress and HUD address what GAO believes are basic underlying causes of managerial difficulties. There is a need to

- build an organization with greater stability;
- place more emphasis on general management functions;
- strengthen accountability for general management functions; and

--establish continuity within HUD's top management team.

Any analysis of HUD's management effectiveness would not be complete without recognizing external influences. HUD is influenced by its clientele and by public and private interest groups. Furthermore, it must cope with shifts in program focus and direction resulting from actions by the Congress and changes in administrations.

#### ADDRESSING ORGANIZATIONAL ISSUES

The 1981 legislative year marked the introduction of the administration's proposal to reduce the federal government's role in accomplishing national objectives. The thrust is to reduce federal involvement and rely more on the private sector and state and local governments. For example, HUD has (1) redirected the focus for housing from construction to greater use of existing housing and (2) reduced government restraints on the Community Development Block Grant Program, including encouraging states to administer the program's small city segment.

In September 1983, HUD restructured its field organization to reflect reduced workload and program changes. However, the reorganization did not address certain management deficiencies inherent in the existing organizational arrangement. Prior reorganizations had led to complex relationships among levels of management, creating confusion concerning the specific responsibilities and functions of HUD's field offices vis-a-vis headquarters.

Also, HUD's recent reorganization still embraces a regional office concept and a field office presence in most states which may be overly complex to meet a reduced federal role.

In view of ongoing program changes and further program, policy, and cost and benefit uncertainties, GAO is recommending that HUD's Secretary evaluate how well the new field structure is working. (See p. 35.)

#### NEW APPROACHES FOR MANAGERIAL CONTINUITY AND ACCOUNTABILITY

HUD's Secretary implements major policy initiatives and sets the tone for agency

managers and staff. Secretarial actions, together with the agency's management processes and systems, demonstrate commitment to effective and efficient management.

GAO believes demonstration of this commitment could be enhanced by (1) an explicit statement of the Department's goals and objectives which outlines the Secretary's agenda and priorities for the coming years, (2) specific delegation of authority to one person for the Department's general management functions, (3) the Secretary's showing support for improving and using HUD's management systems and processes for decisionmaking, and (4) having an effective system which holds managers accountable for performance. However, GAO found that HUD had problems in each of these areas.

--Although the Department's priorities were articulated through operating plans, they were not clearly linked to Secretarial goals and objectives. For example, a field office met a Secretarial priority of increasing debt collection on a HUD loan program by expediting other HUD payments to the debtors, portions of which they then used to pay interest due HUD.

--No one person, including the Under Secretary, has been delegated the responsibility to oversee the agency's daily operations as they relate to general management functions.

--Much of HUD's planning and policy development occurs through the budget development process as contrasted with a well-established departmental management planning process that is clearly linked to Secretarial goals and objectives. For example, in transferring major responsibility for operating the Small Cities Block Grant Program to the states, a Secretarial goal, HUD did not adequately consider this initiative's effect on HUD staffing needs, monitoring policies, or program administration.

--General management functions, such as program evaluation and financial management, were widely dispersed, uncoordinated, and needed improvement. For example, the absence of a central direction and focus for financial management contributed to HUD spending \$27 million in an unsuccessful attempt to

develop an automated accounting system for its mortgage insurance activities.

HUD's top management team changes frequently--presidential appointees at HUD have turned over about every 2 years and turnover is also high among the Senior Executive Service staff. As a result, institutional memory at a high level does not exist to understand the causes of HUD's longstanding management problems and the implications of alternative solutions.

GAO offers the Congress three options for its consideration which, in varying degrees, address managerial style, accountability, and continuity issues. One option is for the Congress to amend HUD's enabling legislation and create the position of Under Secretary for Management. The position would be filled by a nonpartisan presidential appointee who would be accountable, by law, to the Secretary for HUD's management systems and general management functions. To increase the likelihood that an effective Under Secretary would remain when HUD's leadership changes, the Congress could style the proposed amendment after the Inspector General Act of 1978 which requires notifying both houses of Congress of the reason for removal.

A second option is to strengthen the role of the Assistant Secretary for Administration by delegating to the Assistant Secretary authority to oversee all of HUD's general management functions. A third option is to create the position of Deputy Under Secretary for Management under the present single Under Secretary. Unlike the first two options, this proposed career-reserved official would be only an advisor to the Office of the Secretary and would not have authority over general management functions.

GAO recognizes that a nonpartisan Under Secretary for Management may be a departure from our traditional political system. However, this option is particularly attractive because it can professionalize and enhance HUD's managerial leadership and provide a benchmark for the Congress to use when considering ways to improve management in other federal agencies. (See p. 153.)

## ADDRESSING MANAGEMENT PROBLEMS AND ISSUES

HUD has made significant strides toward resolving many of its management problems. For example, HUD has increased its efforts in monitoring to prevent fraud, waste, and mismanagement and is improving its financial management activities. These and other management actions are positive steps. (See p. 11.)

HUD's management and GAO recognize that additional improvements are needed, but they will not come easily and will require time. Therefore, GAO is making short- and long-term recommendations to HUD. GAO also presents recommendations to and matters for consideration by the Congress.

### Improving planning and budgeting

Planning and budgeting must play an important role if HUD is to successfully manage the transition from programs stressing housing production to those stressing preservation and maintenance of existing housing and greater emphasis on cost control and reliance on the private sector. HUD relies on the budget process as the primary means to direct and control HUD activity. This reliance has not been an effective substitute for needed management systems for planning, developing policy, and communicating current and future Secretarial expectations to headquarters and field staffs. (See p. 40.)

GAO also found that the short (annual) budget and legislative cycles, coupled with delayed funding approval, contributed to management problems. For example, HUD's appropriation bills were enacted late 19 of 21 times from 1962 to 1982. These delays contributed to late communication of budgetary priorities to program staff and fostered a short-term focus and uncertainty beyond the authorized period at the expense of long-range planning. For example, delayed funding prevents many of the nation's 2,700 public housing authorities from operating efficiently. These authorities received subsidies through HUD, totaling about \$1.2 billion in fiscal year 1983, to pay for such items as utilities, maintenance, and security. The uncertainties surrounding delayed funding

prevent authorities from engaging in meaningful budget planning, which increases risks of poor security and further deterioration of buildings and equipment. GAO has previously proposed that the Congress consider such reforms as multiyear authorizations and clearer statements of policy and program objectives in authorization legislation. While these changes may be slow in coming their need has been recognized by congressional budgetary reform legislation introduced in the 93th Congress. (See p. 52.)

GAO also found weaknesses in HUD's analytical base--accounting, financial, resource management, and evaluation data used to support HUD's budget and to monitor and analyze program execution. For example, HUD does not allocate salaries and expenses--which annually exceed \$500 million--to many of its programs. As a result, the total costs of many programs are not available for oversight and analysis by the Congress and others. (See p. 58.)

Further, the magnitude, design, and the funding practices associated with certain aspects of HUD's budget presentation create congressional budgetary control problems. For example, HUD's long-term contracts for assisted housing have created obligations for future outlays of nearly \$206 billion. (See p. 67.)

GAC's recommendations to improve budgeting and planning are aimed at

- the Congress' requiring HUD to expand its budget justifications to fully reflect all material aspects of uncontrollable costs and the budgetary impact of programs;
- HUD's developing a department-wide planning system; and
- HUD's improving the analytical base of the budget by continuing efforts to improve financial management systems that integrate budgeting and accounting. (See p. 80.)

Program delivery can  
be more effective

Although the nature and severity of program delivery shortcomings vary among programs, several problems are common. HUD needs to

(1) more effectively provide guidance and direction to program delivery staff, (2) develop staff skills and expertise, and (3) resolve problems uncovered by the many reviews, audits, and evaluations of HUD programs and procedures.

Staff skill and training inadequacies, in particular, limit HUD's ability to properly monitor programs and grantees. Also, rapidly changing organizational needs, coupled with workload changes, are further straining HUD's efforts to improve its staffing. For example, HUD's field managers told GAO that staff training was a critical need. Groups served by HUD also cited staffing inadequacies as a major HUD problem.

GAO's recommendations to HUD's Secretary in these areas are aimed at

- establishing a more effective staff development program;
- improving the quality and timeliness of headquarters guidance to field offices; and
- improving monitoring of program participants, on-site performance evaluations, and management's responses to internal and external report recommendations. (See p. 109.)

Financial management  
information systems  
weaknesses

HUD's financial management information systems have not kept pace with the needs of the Congress or HUD's management. Although HUD's management has initiated a number of improvements, it has not fully addressed the underlying causes of these systems problems. These include the absence of

- a Chief Financial Officer with responsibility for providing a central focus for developing financial management policies and systems and
- long-range planning to establish improved oversight and control over automated systems.

HUD's management information systems do not provide timely and accurate data necessary to establish accountability for, and control over,

housing and urban development programs. Also, HUD's accounting systems were not sufficiently automated, and extensive manual efforts are needed to perform accounting functions. Only 40 percent of headquarters accounting systems were automated, and most of those automated were obsolete.

Further, a number of these systems were implemented without assurance that they comply with the principles and standards prescribed by the Comptroller General. Also, GAO has been consistently unable to express an unqualified opinion on the financial statements of the Federal Housing Administration fund--HUD's mortgage insurance arm--because of accounting system deficiencies. Further, recent HUD reports concluded that accounting systems for the Assisted Housing and Community Development Block Grant Programs were not adequate to meet management's needs. (See p. 118.)

Recognizing the need for improvements, HUD is reevaluating its internal controls and reviewing the vulnerability of its accounting systems to fraud, waste, and abuse. This effort should place the Secretary in a better position to report on the adequacy of internal controls as required by the Federal Managers' Financial Integrity Act (Public Law 97-255).

GAO's short- and long-term recommendations for the Secretary of Housing and Urban Development to further improve financial management systems include:

For the short-term,

--establishing the position of Chief Financial Officer with clear responsibility and accountability to set financial policy and provide a central focus for development of improved financial management systems and

--correcting internal control weaknesses.

For the long-term,

--developing accounting systems which comply with the principles and standards established by the Comptroller General,



--streamlining the processes used to accomplish accounting functions, and

--establishing a long-range automatic data processing planning and control process.  
(See p. 134.)

AGENCY COMMENTS AND  
GAO'S EVALUATION

HUD agreed with many of GAO's findings and recommendations. Often, it said it was taking or planning actions which would correct deficiencies GAO cited. HUD disagreed with GAO's draft proposal to reevaluate the proposed field reorganization. Concerning planning--another area where GAO and HUD differed--HUD agreed that it needs to better integrate its budget process with other management functions but disagreed with program examples cited by GAO showing a need for more systematic planning. HUD also said it had reported long-term goals and objectives to the President and is attempting to refine these within the context of existing and proposed legislation. HUD also disagreed with GAO's recommendation that the Congress require HUD to include in its budget justification more information on future costs and budgetary consequences of programs. (Appendix XV contains HUD's comments.)

Regarding GAO's three options to increase continuity and accountability for general management functions, HUD stated that it preferred the option of strengthening the role of the Assistant Secretary for Administration and increasing the involvement of the existing Under Secretary in day-to-day activities relating to the overall management of the Department.

GAO considered the Department's comments and made necessary changes to its report. GAO has disagreed with HUD's field reorganization in two prior reports and in testimony before the Congress. Since HUD has finalized its reorganization GAO recognizes that its draft proposal to reevaluate the proposed field reorganization is now moot. However, GAO concludes that the reorganization does not fully address problems identified in the report. Although GAO is not recommending that HUD's Secretary modify, at this time, the new field structure, GAO is recommending that the

Secretary evaluate how well the new field structure is working.

The planning examples cited by GAO demonstrate that planning at HUD is of dissimilar quality and scope. In the case of a proposed housing vouchers program, for example, HUD did not consider what staff resources or skills it would need to effectively implement the program.

On long-term goals and objectives, GAO found that HUD did not include these in its budget justification or link them to its field office planning system. Similarly, GAO's recommendation to the Congress on expanding HUD's budget justification is based on the perspective of overall budgetary control. Both the Department's obligated balances and guaranteed loan balances are about half of the government's total. Accordingly, GAO continues to believe that the Congress would benefit from more information on the expected future costs of HUD's programs.

GAO continues to favor the option of creating the position of Under Secretary for Management. GAO recognizes that strengthening the role of the Assistant Secretary for Administration has certain advantages, such as requiring relatively little reorganization. However, this option may prove to be less effective than the option for an Under Secretary for Management in resolving the difficult issues of management commitment and accountability. Using the Assistant Secretary for Administration and the present Under Secretary may result in a "business as usual" approach to management improvement. Therefore, creating a non-partisan Under Secretary for Management offers more promise for professionalizing and enhancing management performance at HUD.

GAO's specific responses to HUD's comments follow the applicable recommendation sections of the report.

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#### ABBREVIATIONS

ADP	automatic data processing
CDBG	Community Development Block Grant Program
CPD	Community Planning and Development Division
EDA	Economic Development Administration
FHA	Federal Housing Administration
FHEO	Fair Housing and Equal Opportunity Division
FmHA	Farmers Home Administration
GAO	General Accounting Office
HUD	Department of Housing and Urban Development
OIG	Office of the Inspector General
OMB	Office of Management and Budget

OPLAN	operating plan
PD&R	Policy Development and Research Division
PHA	public housing authority
SBA	Small Business Administration
UDAG	Urban Development Action Grant Program
VA	Veterans Administration

## CHAPTER 1

### INTRODUCTION

The history of the Department of Housing and Urban Development (HUD) is characterized by change and conflict, because of the evolutionary federal role in housing and urban development and because of many diverse social, economic, and political forces affecting this role. HUD's management and management systems, therefore, play a highly significant role in coping with change, resolving conflict, and establishing a clear sense of purpose and direction. Strong management can and should provide leadership, direction, accountability, continuity, and financial integrity so important to an agency's operational efficiency and effectiveness.

Our review examined management's performance in

--organizing and directing the agency,

--planning its activities and determining resource allocations,

--executing program delivery, and

--providing management control through accurate and timely information.

From the inception of our review, the Secretary of Housing and Urban Development (HUD) and his top managers supported our work. We found this support very helpful. Our frequent discussions with HUD's top management provided a constructive way to explore practical alternatives for changes to persistent problems.

### HUD: CREATION, PURPOSE, AND ORGANIZATION

HUD was established by the Housing and Urban Development Act of September 9, 1965, (79 Stat. 667; 42 U.S.C. 3531-3537). The act consolidated the functions and authority of the Housing and Home Finance Agency into the new department. It did not, however, consolidate all housing and urban development activities existing in other parts of the federal government, such as those of the Farmers Home Administration and Veterans Administration.

HUD's functions and authority have expanded over time to a broad mission of providing adequate housing for all Americans, promoting community and economic development for urban areas, and eliminating discrimination in housing markets. HUD's major programs include:

--Housing assistance and mortgage credit. Housing assistance programs and the mortgage insurance programs of HUD's Federal Housing Administration (FHA) are activities that

provide low- and moderate-income families with homeownership and rental housing assistance.

--Community development. Community Development Block Grant Programs, the Urban Development Action Grant Program, and Rehabilitation Loan and Urban Homesteading Programs. These programs provide federal assistance to communities for improving housing conditions, conserving energy supplies, expanding business opportunities and providing jobs, and revitalizing blighted areas in the nation's cities and counties.

--Fair housing and equal opportunity. Fair housing programs provide financial assistance to state and local agencies to help them eliminate housing discrimination by promptly processing civil rights complaints, and by carrying out affirmative marketing agreements and promoting equal opportunity matters within HUD programs.

HUD is organized into three tiers. First, the Secretary, Under Secretary, assistant secretaries, and other headquarters staff provide policy direction and management oversight to the field units. Second, HUD's regional offices supervise and monitor field offices' program performance. Third, HUD's 10 regional offices, 39 area offices, 33 service offices, and 18 evaluation/endorsement stations deliver programs nationally.<sup>1</sup> This structure is designed to centralize program management and decision-making and decentralize program execution. HUD's structure is described in more detail in chapter 2, and an organizational chart is included in appendix I.

#### MAGNITUDE OF THE MANAGEMENT TASK AND CURRENT DIRECTION

Although HUD is a relatively small Cabinet-level agency in terms of number of employees, its financial, economic, and social responsibilities affect many sectors of the economy and much of the nation's population. It provides grants, loans, insurance, and subsidies to millions of people, and organizations. For example:

--As of September 30, 1982, the total outstanding balance of FHA insurance written was about \$138 billion.

--Since the mid 1970's, HUD has distributed over \$20 billion to thousands of cities and counties through its community and urban development grant programs.

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<sup>1</sup>On September 8, 1983, HUD reorganized its field offices, which had the effect of combining some of the regional and area offices.

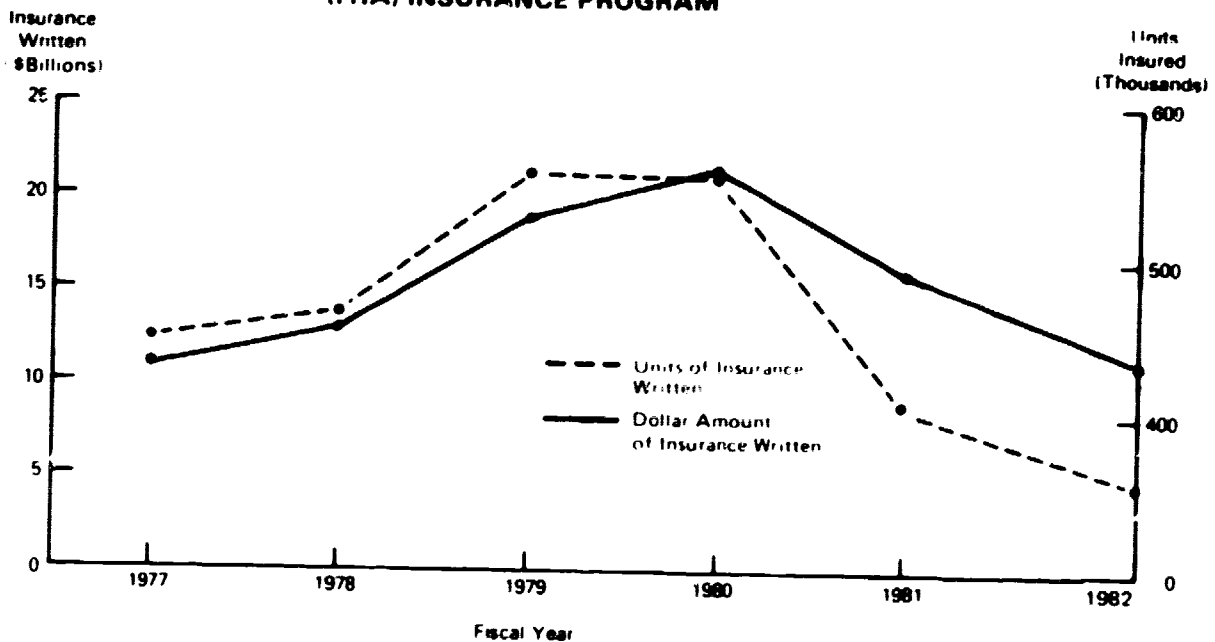


Total financial long-term commitment to assisted housing programs was about \$206 billion as of September 30, 1982.

The following figures indicate the extent of HUD activity in its major programs. The first figure shows effects of high 1980-82 interest rates on the number of homes insured and the dollar amount of FHA insurance issued by HUD. The second figure shows that major subsidized housing construction assistance programs are declining in response to the administration's efforts to deemphasize construction programs. The third figure reflects the relative leveling off of funding for the Community Development Block Grant (CDBG) and Urban Development Action Grant (UDAG) Programs. The fourth figure shows an increase in Fair Housing and Equal Opportunity (FHEO) activity in terms of complaints received and processed from 1977 through 1982.

Figure 1-1

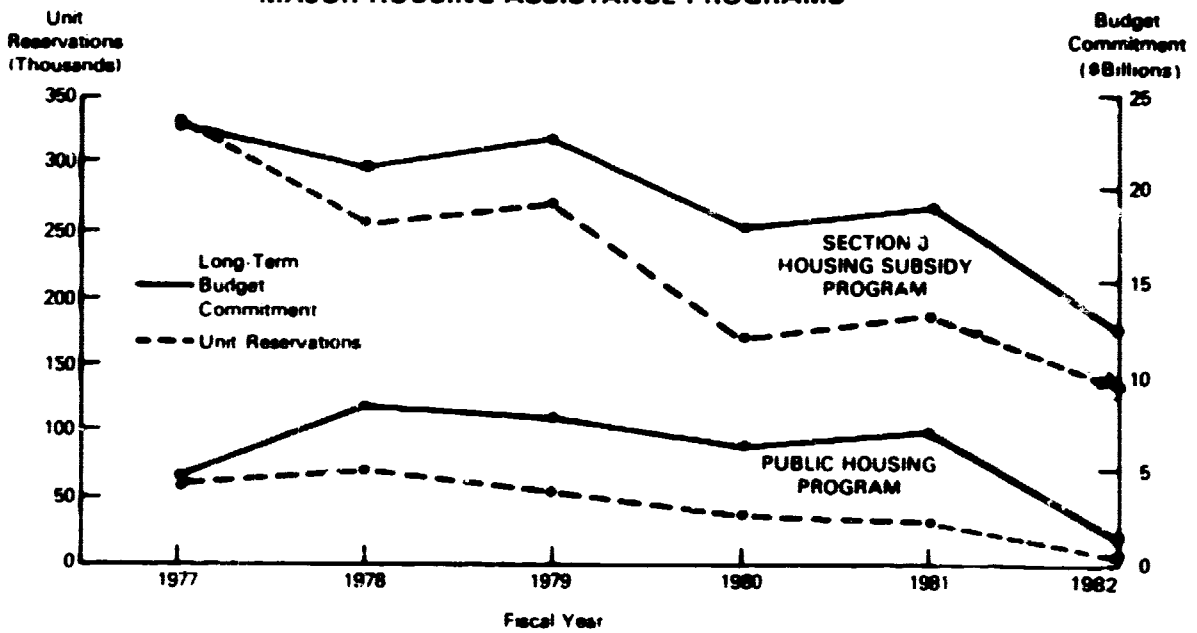
FEDERAL HOUSING ADMINISTRATION  
(FHA) INSURANCE PROGRAM



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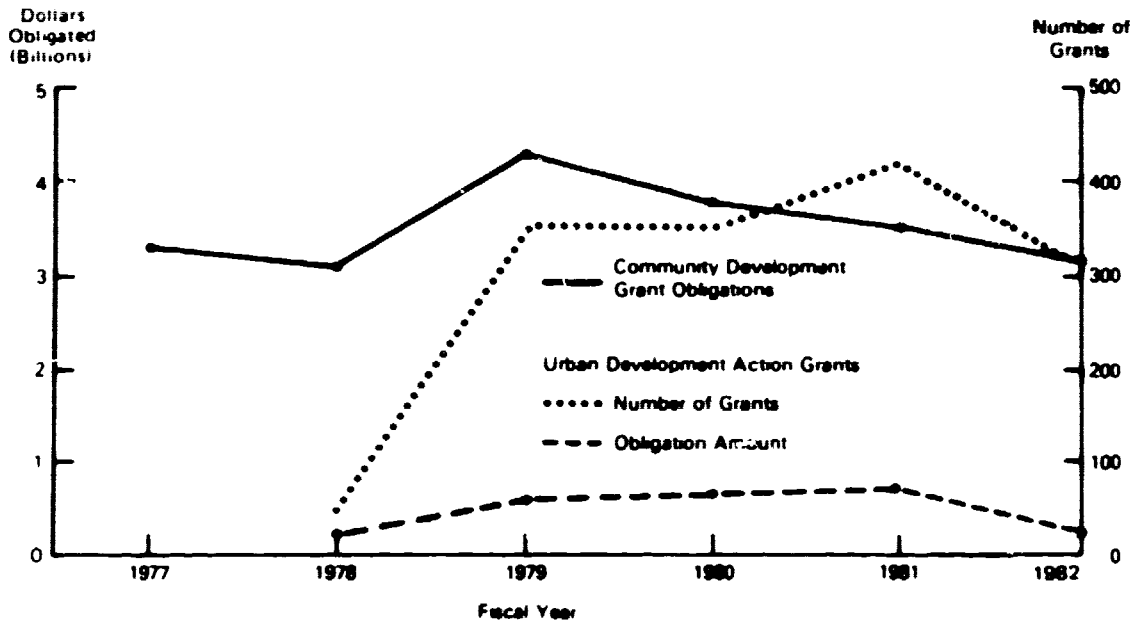
**Figure 1-2**

**MAJOR HOUSING ASSISTANCE PROGRAMS**



**Figure 1-3**

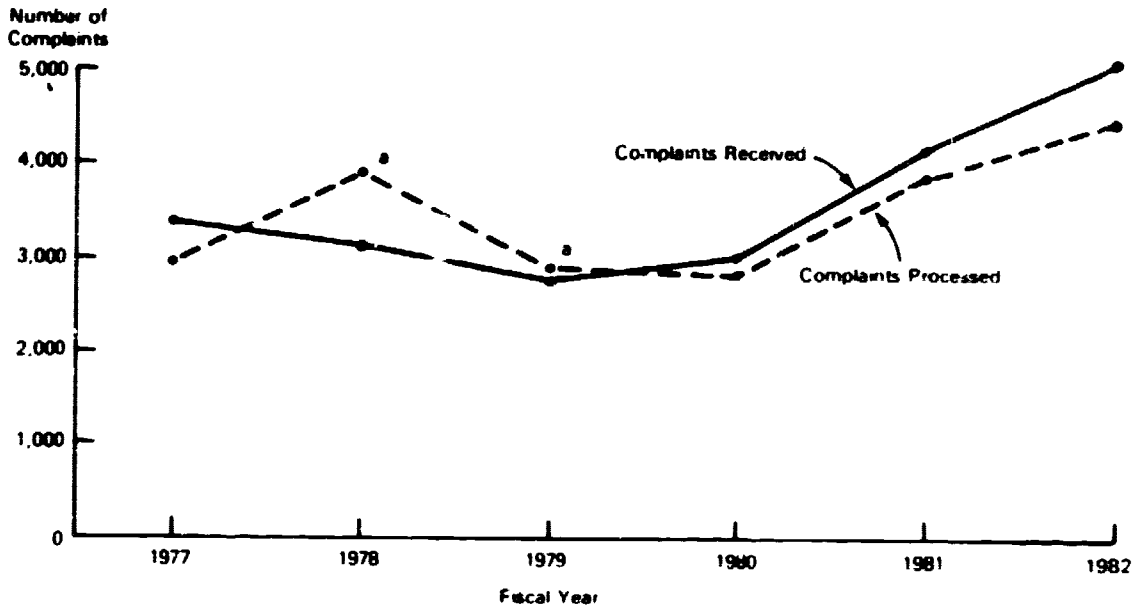
**COMMUNITY PLANNING AND DEVELOPMENT PROGRAMS**



**Figure 1-4**

**FAIR HOUSING AND EQUAL OPPORTUNITY PROGRAMS**

**HUD Title VIII 1968 Civil Rights Act**



\*More Complaints Were Processed Than Received as a Result of Carry-Over Complaints Received in Prior Years

Since 1981, HUD has redirected its policies and programs to reflect administration goals of reducing the size and cost of the federal government, lessening the regulatory burden on program participants, delegating more responsibility to state and local governments, and placing greater reliance on the private sector. HUD has greatly reduced new construction programs, narrowed program eligibility requirements, transferred, at the option of the states, the administration of the small cities block grant program, and proposed an enterprise zone program. Steps HUD cited as significant management improvements include (1) reductions in both budget authority and staff by phasing out some activities and conserving costs and (2) improving asset management by emphasizing control over waste, fraud, and abuse and collecting delinquent debts owed the Department.

HUD's extensive internal management machinery, as well as the external environment, greatly influences the success or failure of the Department's programs. These include

Internal influences:

- HUD had about 13,000 full-time staff in headquarters and field offices for fiscal year 1983.
- HUD is responsible for administering about 210 federal legislative acts, titles, sections, and programs.

- HUD has a Secretary, an Under Secretary, 2 Deputy Under Secretaries, 6 assistant secretaries, 16 deputy assistant secretaries, a General Counsel, an Inspector General, a General Manager of the New Community Development Corporation, and a President of the Government National Mortgage Association.
- Administrative guidance handbooks encompass all aspects of HUD's activities, including accounting and financial procedures, procurement practices, and program delivery.
- HUD had 128 automated management information systems in operation as of December 31, 1982, 26 under development, and 12 planned.
- HUD's Office of Inspector General (OIG) conducts over 100 internal management reviews each year.

External influences:

- About 40 congressional committees and subcommittees are concerned with HUD's housing and community development activities.
- HUD provides support to approximately 2,700 public housing authorities throughout the nation.
- About 70 state and local agencies and 130 community housing resource boards received HUD fair housing assistance during fiscal year 1982.
- The nation's housing finance system, an integral part of HUD's mortgage and insurance activities, is composed of more than 4,000 savings and loan associations, about 500 mutual savings banks, more than 14,000 commercial banks, over 1,000 mortgage bankers, and numerous other public and private financial institutions, including the Government National Mortgage Association and the Federal National Mortgage Association.

EFFECTIVENESS OF HUD PROGRAMS

In its efforts to improve the nation's quality of life, HUD has spent billions of dollars and obligated hundreds of billions more through its housing, mortgage insurance, community development, and fair housing programs. These programs, however, have often been confronted by management problems. This has been reported by us, HUD's OIG, congressional committees, HUD's internal and contractor studies, and public and private interest groups.

A comparative review of 48 GAO reports selected from a total of 292 reports issued on HUD activities from January 1976 to

September 1982, and 7 OIG Semi-Annual Reports<sup>2</sup> to the Congress from October 1978 to March 1982 (app. II contains a complete listing of the reports reviewed) identified a variety of management problems.

The results of our examination, shown on the next pages and amplified further in appendix III, show that the management areas where problems were identified are similar among program areas and are repetitive. A common thread runs among the problem areas, and they transcend both time and political philosophy. Subsequent chapters of this report suggest that the causes are deep rooted and therefore will affect the success of the policy and program direction and focus now underway at HUD. We have traced them to

- frequent changes in organizational structure,
- a need to strengthen accountability,
- lack of emphasis in general management functions, and
- frequent turnover of management personnel.

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<sup>2</sup>The HUD Office of Inspector General was established by an administrative act of the Secretary on January 29, 1972. The Office of Inspector General was established, by law, with the signing of the Inspector General Act of 1978 (Public Law 95-452) on October 12, 1978. The HUD/OIG semi-annual reports provide narrative and statistical summaries of the significant HUD activities, events, and findings identified for the 6-month periods of April 1 to September 30, and October 1 to March 31.

Figure 1-5

**MANAGEMENT AREAS WHERE PROBLEMS WERE  
IDENTIFIED IN GAO AND HUD/OIG REPORTS**

MANAGEMENT AREAS	YEAR REPORT ISSUED						
	1976	1977	1978	1979	1980	1981	1982
Organizational structure		G					
Planning and policy development	G		H	G	G	B	G
Monitoring field offices and program participants	G	G	B	B	B	B	B
Communication or guidance	G			G	G	B	H
Enforcement or compliance			H	B	H	B	B
Training or staffing					B	H	H
Financial management			G	B	B	B	B

G = GAO report(s)

H = HUD/OIG report(s)

B = Both GAO and HUD/OIG issued separate report(s)

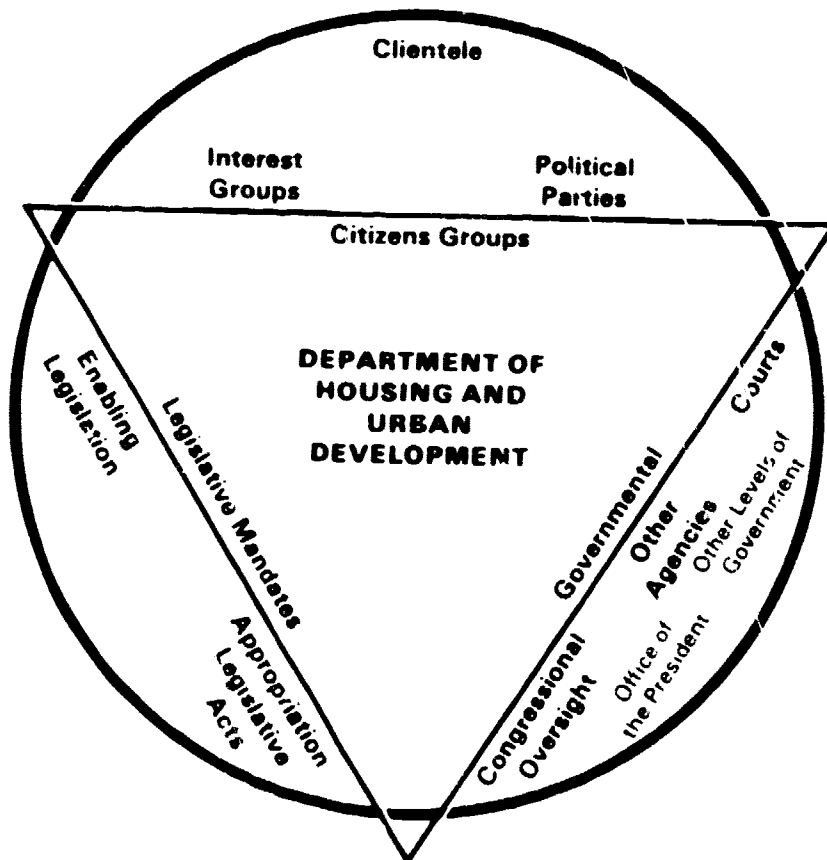
Figure 1-6

<b>EXAMPLES OF HUD MANAGEMENT PROBLEMS</b>	
<b>MANAGEMENT AREA</b>	<b>PROGRAM EFFECTS</b>
Organizational structure	<ul style="list-style-type: none"> <li>● HUD's three-tiered organizational structure created red tape, slow service and incapacity to control losses (1977)</li> </ul>
Planning and policy development	<ul style="list-style-type: none"> <li>● Greater financial risk was created because HUD underwriters did not adequately estimate project revenue and expenses (1978)</li> <li>● Unclear regulations resulted in higher program costs because unnecessary luxury items were included in section 8 subsidized housing projects (1980)</li> </ul>
Monitoring field offices and program participants	<ul style="list-style-type: none"> <li>● Community development block grant funds were not effectively used because monitoring was inadequate and grantees held funds in excess of needs (1980)</li> <li>● Inadequate HUD involvement in monitoring PHA's and providing technical assistance was identified as a central factor in poor PHA management (1982)</li> </ul>
Communication or guidance	<ul style="list-style-type: none"> <li>● Collections were reduced on HUD-held home mortgages because guidance provided to field offices was inadequate (1979)</li> <li>● Improvements could be made in the urban homesteading program if HUD worked more closely with local officials (1979)</li> </ul>
Enforcement or compliance	<ul style="list-style-type: none"> <li>● Millions of dollars in title I home improvement loans were not collected because collection efforts received limited emphasis by management (1981)</li> </ul>
Training or staffing	<ul style="list-style-type: none"> <li>● Poor management of subsidized housing programs due to inadequate staffing to evaluate project applications (1980)</li> <li>● Property disposition practices were not adequate because many employees were not properly trained or used (1981)</li> </ul>
Financial management	<ul style="list-style-type: none"> <li>● Information systems were not adequate to support mortgage insurance programs (1980)</li> <li>● Title I single-family home improvement loans were vulnerable to fraud, waste, and abuse due in part to accounting weaknesses (1981)</li> <li>● Adequate data systems were not established to facilitate evaluation of HUD's success in using millions to rehabilitate housing (1981)</li> </ul>

An analysis of HUD's management is not complete without recognizing an important contributing factor--HUD is influenced and affected by the environment in which it exists. This environment includes congressional direction via legislative authority, budgetary processes, and related congressional oversight; influences of its clientele and public and private interest groups; and direction provided by the Office of the President. This can result in HUD having complex programs with multiple and sometimes conflicting purposes, hampering its ability to effectively plan and control resources and achieve desired program results. The following figure, while broad in focus, provides a perspective of the environment in which HUD exists.

Figure 1-7

**HUD'S  
GENERAL SOCIAL AND ECONOMIC  
ENVIRONMENT**





## PATH TO CHANGE

Throughout this report, we show that HUD's current top management acknowledged defects in the present management structure and systems and recognized the lack of management continuity and accountability, all of which affect program delivery. Examples of the major initiatives HUD has taken are noted below and others are included in subsequent chapters. Some of these changes are not fully implemented, and others are being considered.

- Creating a Presidential Commission on Housing. The Secretary of Housing and Urban Development was instrumental in creating a commission to advise both the President and the Secretary on recommendations for a national housing policy. The Commission's report, submitted in April 1982, results in many recommendations, some of which have already been adopted by the Administration.
- Reducing costs. A wide variety of cost-reduction activities has been implemented. These include
  1. an improved accounting procedure, which should reduce the costs now incurred because of excess cash advances to public housing authorities;
  2. reduction in telephone, space, travel, and publications costs;
  3. a pilot program for immediately depositing mortgage premium payments in a bank; and
  4. tighter scheduling and electronic funds transfer of payments to public housing authorities.
- Preventing fraud, waste, and mismanagement. One of HUD's highest priorities is the elimination of fraud, waste, and mismanagement in its programs. Several major Department-wide activities address this priority. The Secretary reestablished the Committee on Fraud, Waste, and Mismanagement which, among other things, set a new direction for HUD's monitoring strategy. This strategy targets monitoring efforts to high-risk participants and areas; seeks stronger sanctions; and emphasizes education of HUD staff and program participants on the importance of preventing fraud, waste, and mismanagement.

HUD's OIG has been instrumental in identifying and addressing fraud, waste, and mismanagement. For example, OIG activities in fiscal year 1982 recovered \$55.6 million, aided in the indictment of 354 persons or firms, and resulted in 333 convictions. HUD managers have also agreed to OIG audit findings which could result in additional millions of dollars in future recoveries.

The OIG also conducted reviews of the field offices' administrative management activities.

- Intensifying management reviews. HUD has intensified its management reviews of financially troubled public housing authorities.
- Improving debt collection. HUD has implemented a special debt collection effort to identify and collect loan delinquencies outstanding in the insurance programs.
- Performing administrative studies. HUD has initiated a number of administrative studies, some of which have been completed, that have included a wide variety of HUD's functions and activities, including training programs, accounting functions, management processes, contracting and procurement, distribution and storage procedures, travel and overtime procedures, data processing systems, and performance standards.

Our work supports the need for additional change. This change will not be easy. What emerged from our review is that no single action or short-term fix will resolve the root causes of inefficient and ineffective management processes.

To identify possible improvements, we assessed the strengths and weaknesses of current management systems and processes including those within HUD's control and those which affect HUD more broadly within the environment of our federal system. These include:

- organizational stability (ch. 2),
- planning and budget processes (ch. 3),
- program delivery (ch. 4),
- management systems integrity (ch. 5), and
- new approaches for management continuity and accountability (ch. 6).

Chapter 2 discusses the major organizational issues confronting HUD, including (1) the appropriateness of the regional and headquarters structure to effectively deliver HUD programs and (2) the potential impact of evolving external federal policies which could significantly affect HUD's structure.

Chapter 3 shows that, although HUD uses the budget process as the primary planning tool for decisionmaking, the budget process, as such, is not an effective surrogate for (1) a department-wide planning process and (2) the analytical base--management, resource, and evaluative data--from which the budget is formed and which is used for budget execution monitoring is not composed of

timely and accurate data. Further, the funding and design of some HUD programs make budget controllability difficult and do not fully disclose the impact on federal funding.

Chapter 4 shows that managing program delivery is affected by a cumbersome program guidance system, inadequate evaluative and monitoring processes, and a need for better trained staff and program information.

Chapter 5 shows that management's systems--both program and financial--are not fully supporting departmental management. The systems produce information that is often inaccurate or incomplete. In addition, the systems do not include those internal controls necessary to adequately protect against fraud, waste, and mismanagement.

Chapter 6 builds on the material developed in earlier chapters and offers three approaches for improving management accountability, continuity, and overall emphasis and support for management improvements.

This report covers a broad range of subjects and provides short- and long-term recommendations including those within HUD's control and those which affect HUD more broadly within the federal system. Per se, our recommendations are not a panacea for effective management. Taken collectively, however, they can provide the momentum for change.

#### OBJECTIVES, SCOPE, AND METHODOLOGY

Our objectives were to (1) identify and analyze management problems and their underlying causes and (2) recommend improvements to the Congress and the Secretary of Housing and Urban Development for increasing HUD's management effectiveness in light of current agency programs and policies and management initiatives already underway. In achieving these objectives, our primary focus was on the key processes used by management to direct and control the Department. We sought to answer the following key questions:

- How well is HUD's top management guiding and directing the agency?
- How do external factors affect achievement of management efficiency and program effectiveness?
- How does HUD use planning and resource management processes to develop mission-oriented goals and objectives, and how are priorities set for achieving goals and objectives?
- How well do HUD's operational plans link to its stated goals and objectives and to program implementation?

**--How are management systems--both financial and program--strengthening and supporting program delivery?**

To accomplish our objectives, we initially reviewed the management literature to identify the traditional components of management systems. We also identified information on external constraints facing federal managers. This was done to provide a benchmark against which we could compare HUD's programs.

We next reviewed the results of studies conducted by us, HUD's Inspector General, public interest groups, and management consulting firms to identify program ineffectiveness and related management causes. We also analyzed information from congressional hearings and reports.

We reviewed pertinent legislation and agency documents and interviewed HUD officials, including the current and former Secretaries of HUD, the Under Secretary and assistant secretaries, the Inspector General, the General Counsel, and many other top and middle management headquarters and field officials. We also interviewed housing experts in the Congress, industry, private associations, and academia. (The groups we contacted are shown in app. IV.) In addition, we hired two consultants, knowledgeable in the field of public administration, who provided advice and expert opinions on our review methodology and the report. (See app. V.) We performed the review in accordance with generally accepted government audit standards.

Our field work was conducted from March through December 1982 at HUD headquarters, Washington, D.C., and in three regional offices--Fort Worth, Tex.; Philadelphia, Pa.; and Seattle, Wash. Within these three regions, further detailed audit work was performed at the Philadelphia; San Antonio, Tex.; and Seattle Area Offices. We used two criteria for selecting offices: geographic dispersion and work performed by the office which included both housing and urban development.

In performing this first department-wide review, we concentrated on department-wide management issues, especially issues which affect HUD's ability to efficiently, effectively, and economically implement its major programs. We focused on management processes and related control systems that materially affect HUD's management. Accordingly, we did not cover all management processes or determine how well HUD is carrying out particular programs.

It is also important to note that we did not attempt to evaluate the reasonableness of policy-making activities external to HUD. In commenting on our draft report, the Secretary said that current federal housing policy stems largely from recommendations in the April 1982 report of the President's Commission on housing. He added that the Commission's recommendations have been and will continue to be considered by the President's Cabinet Councils on Human Resources and on National Resources and

Environment, both of which the Secretary is a member. Similarly, the Secretary pointed out that the administration's priorities in urban policy can be traced to the President's National Urban Policy Report. The Secretary said that the above two reports and Cabinet Council deliberations are the primary ways federal housing and urban policies are formulated. He also noted that policy must fit within the broader goals of this administration--such as the President's goal to deregulate. A more detailed description of our methodology is provided in appendix VI.

## CHAPTER 2

### OBSERVATIONS ON ORGANIZATIONAL STABILITY

From its beginning, HUD has played a dominant and growing role in delivering and managing federal housing and community development programs. However, major changes in direction are underway and others may be imminent. These changes are reducing federal involvement and expanding the role of the non-federal sector.

Shortly after its creation, HUD began a series of transformations that changed its organizational and institutional arrangements. What emerged, more than a decade later, is an organizational structure which

- centers program management in three blocks: a housing component, a community planning and development component, and a fair housing and equal opportunity component;
- operates on a decentralization philosophy which gives decisionmaking authority to officials closest to program delivery; and
- delivers programs in a three-tiered arrangement: a headquarters tier, an intermediate regional office tier, and a field office delivery tier.

The many reorganizations and realignments since HUD's inception have formed a complex relationship among levels of management. The net result is that a certain amount of confusion exists at all levels concerning authority, responsibilities, and functions. Consequently, complexities and difficulties increase in providing and administering services to clientele. This leads to ineffective program delivery.

A persistent issue is the role, relationship, and effectiveness of regional offices as a middle tier of management. When the regions were established, the concept was that headquarters would be the policymaker, the regions would supervise, and the area office would operate the programs. HUD recently placed regional managers back into the operational chain and is holding them responsible for direct program operation and execution. In effect, this change reverses a 1977 reorganization, which was intended to correct deficiencies in processing delays, communication, excessive overhead, and inadequate technical assistance.

The administration's program to reduce federal involvement in state and local housing programs could substantially change the way HUD structures and manages its programs. Further, HUD's recent modifications to its field structure may not fully address issues presented in this chapter. In view of these factors, we believe HUD's Secretary needs to evaluate how well the new field structure is working to determine

- Whether functional relationships among headquarters, regions and area offices promote accountability and establish clear lines of authority.
- The value of and contribution of regional offices in the management and delivery of programs.
- The cost and benefits of having field offices in all states, especially in the environment of a declining federal role.
- The relationship between ongoing and proposed policy and program changes to any organizational change.

Over and beyond these internal HUD organizational issues is the possibility that the administration and the Congress may wish to reconsider how the federal government should be organized to best promote housing and community development. Doubts exist about the political acceptability of shifting various parts of executive agencies to unify housing and community development. However, doubts may give way if the administration accomplishes initiatives aimed at transferring more federal responsibilities to states and the private sector. Also, budget constraints may invoke a greater understanding of the impact on the intended beneficiaries of having these programs dispersed among various executive agencies.

#### HUD's ORGANIZATIONAL AND MANAGEMENT PHILOSOPHY

HUD's management philosophy is designed to give decision-making authority to officials closest to programs--the field office directors. A three-tiered structure, each with different operational responsibilities and functions, implements this policy.

The top tier, headquarters, makes and interprets policy, establishes priorities, sets standards and procedures, and directs activities. Program assistant secretaries, responsible to the Secretary, direct the Department's activities at headquarters and in the field.

The second tier, regional offices, serves as an intermediate structure between headquarters and field offices. These offices, headed by regional administrators, supervise and evaluate field office management. Until the recent reorganization they generally had not been involved in the direct delivery of housing and community planning and development operations.

Delivery of HUD programs rests with field offices--the third tier. Various types of field offices have different degrees of responsibility for program delivery. For example, area offices have three divisions to carry out the full range of HUD programs: a Housing Division, a Community Planning and Development Division,

and a Fair Housing and Equal Opportunity Division. Service and multifamily services offices' functions are limited to housing programs. Limited-scale housing activities are carried out by valuation and endorsement stations, generally having from two to nine staff members.

HUD's overall organization evolved over time from a headquarters framework aligning program responsibilities under four assistant secretaries and administrative management under a fifth, to a structure encompassing seven assistant secretaries, a Deputy Under Secretary for Field Coordination, a separate Office of Inspector General, a New Community Development Corporation, a Government National Mortgage Association, and a Solar Energy and Energy Conservation Bank. Similarly, HUD's field activities, initially a carryover of the field units of the Housing and Home Finance Agency, evolved into a two-tiered structure--10 regional offices layered over 90 subregional offices. Currently, HUD maintains a field office in nearly every state and in many large cities. Appendix VII provides further details on HUD's organizational history, and a map on page 19 shows field office jurisdictions.

#### MANAGEMENT AND STRUCTURAL PROBLEMS PERSIST

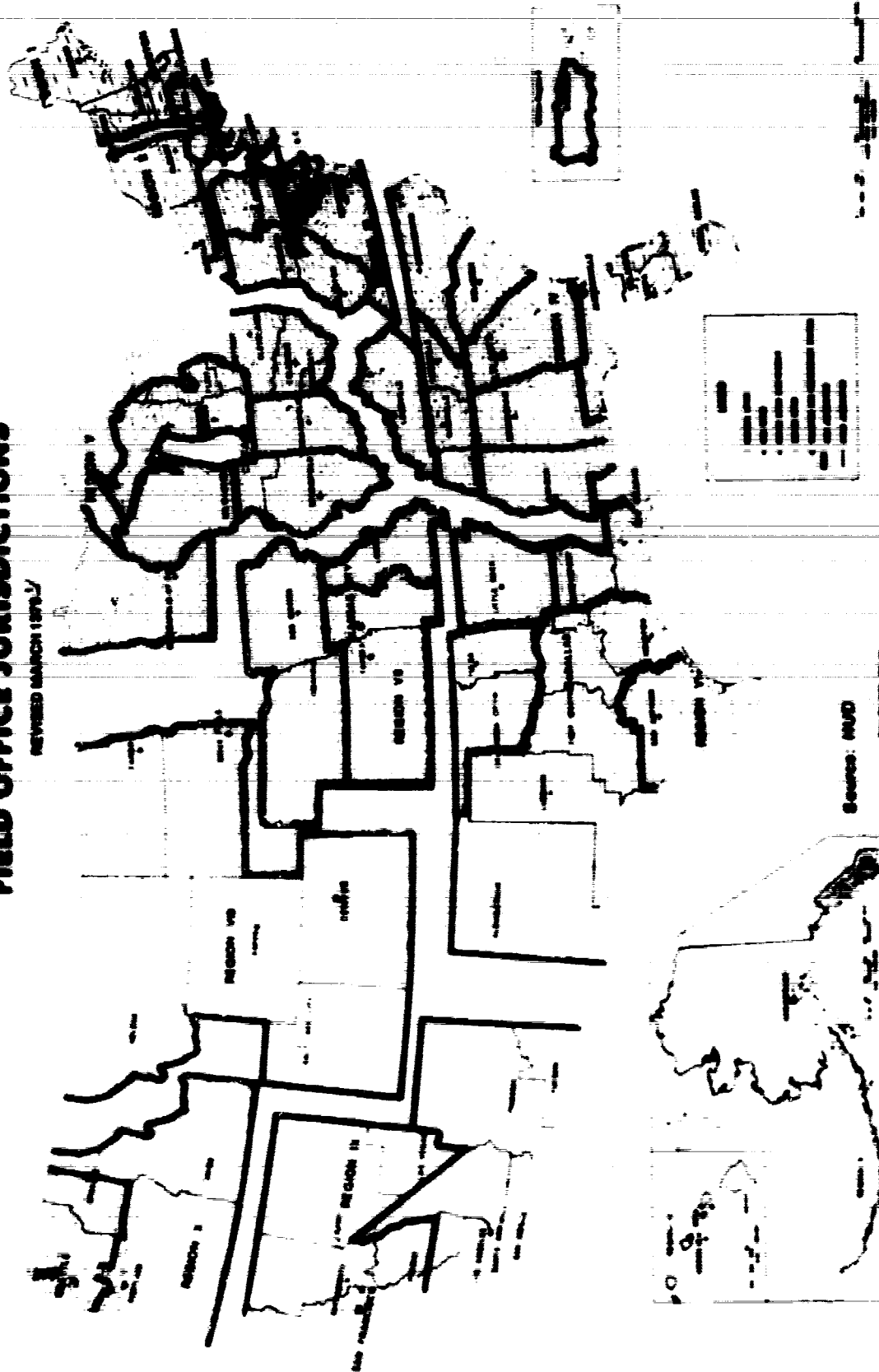
HUD's complex, multifaceted structure and the personnel and functional interrelationships that are required to administer programs pose a management problem. Periodic assessments done over the years have identified problems with accountability, timeliness and consistency of program direction, and communications.



Figure 2-1

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT  
FIELD OFFICE JURISDICTIONS

REVISED MARCH 1978



Since March 1978 the regions and area offices have stayed the same. There may have been minor changes in the location of some service offices and substation and endorsement stations.

Source: HUD

BEST DOCUMENT AVAILABLE

## Accountability

Effective performance of basic management functions-- budgeting, planning, developing policy, directing and providing program guidance, setting and prioritizing work objectives, and evaluating accomplishments--requires an organizational arrangement which establishes and promotes clear lines of authority and responsibility. As presented in the following chapters, responsibility for such functions as data processing, planning, financial management, and evaluation is diffused. No one organizational element is accountable for the entire function.<sup>1</sup> Similarly, we found that responsibility for controlling program priorities and instructions are also diffused throughout the agency.

Past HUD and external assessments have associated accountability issues with HUD's organizational alignment. For example:

--A 1975 House surveys and investigations staff team observed that "The organizational structure of HUD has undergone numerous reorganizations and realignments during its 9-year existence and the relationships between the levels of management created by these changes have been complex. As a result, a certain amount of confusion exists at all levels concerning their functions and responsibilities."

--A 1976 HUD consultant report discussed "...coordination, the fractionalization of authority and the difficulty in fixing accountability and effecting remedial actions."

--A 1977 HUD internal organizational assessment followed by a major reorganization cited deficiencies in policy development and interpretation, organizational flexibility, lines of authority, number of organizational tiers, and accountability of regional administrators.

--A 1981 consultant's report on HUD's Office of Housing cited that "The organization structure is highly fragmented and not designed to concentrate resources on program delivery. Rather it is more suitable to expert consultancy to the field in a response mode, research, and program promotion."

Officials within and outside of HUD told us HUD's organizational structure caused accountability problems. For example, central office and constituency group officials told us HUD's structure has been too cumbersome to promote accountability. An Assistant Secretary told us that, while he is responsible and accountable for managing his program, he still has no formal control over field staff implementing those programs. He

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<sup>1</sup>Chapter 6 discusses some new approaches to deal with HUD's accountability problems.

explained that field staff answer to area office directors, who are responsible to regional office administrators, who are responsible to the Office of the Secretary--not to him. Some field managers told us they are sometimes confused as to (1) their authority and role within the HUD management scheme and/or (2) who is actually in charge at headquarters or, from an area office perspective, at both headquarters and the region.

Delivery of housing programs illustrates the complexity of this problem. Program authority flows from the Assistant Secretary for Housing who is responsible for providing technical support and guidance to the field offices and for monitoring and evaluating technical program performance. However, regional offices, which generally have had no program responsibilities, are responsible for the management and operations of area offices. Thus, dual demands are placed on area offices--programmatic demands by counterparts in the central office and administrative demands by regional offices. Additionally, the Deputy Under Secretary for Field Coordination, a staff position, has a function in field relationships apart from program lines of the Assistant Secretary for Housing. His staff role of coordination and liaison establishes another link in dual command.

The Office of the Assistant Secretary for Housing includes a general deputy assistant secretary, 2 associate general deputy assistant secretaries, 4 deputy assistant secretaries, 17 offices, and 49 divisions. Three units in the Office of Housing, each headed by a deputy assistant secretary, are responsible for various housing programs, but another unit, the Office of Field Operations, is responsible for planning, monitoring, and evaluating field operations. This adds another layer of dual direction.

The large number of field offices HUD maintains also adds to the organizational complexity. A former HUD Deputy Assistant Secretary who supports maintaining regional offices said that the regional layer acts as a dual buffer: (1) between the program-oriented central office and the geographically oriented area offices and (2) between the area office managers who are career employees, and the presidential appointees in the central office. But two others, a former Assistant Secretary and a HUD Deputy Under Secretary, said that HUD could operate more efficiently with one tier. The former HUD Assistant Secretary suggested regional offices could be eliminated if the area offices were sufficiently diverse to handle both housing and community development programs. He qualified his response by saying that unless the number of area offices was reduced, regional offices would be required to coordinate activities of various area offices. He believed there would be too many area offices reporting to the Secretary.

Most headquarters and trade group officials believed that HUD could operate better with fewer field offices. However, unanimity was lacking on the ideal number of field offices. All HUD officials discussing this issue identified political concerns as the principal constraint to reducing the number of area offices.

Field managers were evenly divided as to whether HUD should reduce the number of field offices. Primary advantages cited were dollar savings, greater uniformity of policy and program delivery, and greater concentration of expertise. Disadvantages were that travel costs would increase, HUD's daily presence would be diminished, and HUD talent would be drained.

Recently, an Assistant Secretary summarized problems in the field structure as follows:

- Three-tiered structure creates overlap or confusion of roles and responsibilities and a continuing competition for authority between regional and area offices.
- Imbalances exist between area offices in size, geographic population coverage, and management capacity.

A basic organizational issue facing HUD is how to minimize confusion in the chain of command where many people and offices interact to deliver programs. More specific questions include:

- What management processes will articulate Secretarial goals and provide timely and consistent headquarters directives to field entities? What controls are needed to ensure that the process is working?
- Where authority is delegated, does accountability exist?
- Do dual lines of command from headquarters and regional offices to field offices contribute to confusion and dilution of responsibility?
- Can decisionmaking authority be effectively delegated to area offices within a field structure which has regional offices in the management chain?

#### Timeliness and consistency in program direction

We found that HUD's present organizational structure does not provide timely and consistent policy leadership and technical guidance. This organizational issue is mentioned in most assessments of HUD's structure.

- A 1976 HUD consultant's report on HUD's organizational structure stated that

"The issuances system is too cumbersome and totally unwor'able. Its main fault seems to be that as a peer group, the Assistant Secretaries are unable to reach timely and effective decisions in the clearance process. This, among other factors, causes many offices to circumvent the system."

"A lack of programmatic coordination at the Assistant Secretary level that results in conflicting priorities and confused communications in the field."

--A 1977 HUD organization assessment noted the following disadvantage to the structure at that time.

"Variations in interpretations of policy are greater because of the absence of a direct line of command from the responsible headquarters officials to the field official interpreting policy and administering programs."

--In 1977, the Secretary, in announcing a major reorganization, said the change was intended to correct a number of deficiencies, including lack of clear, consistent, and timely headquarters statements of policies and interpretations to the field.

--A 1981 HUD consultant's report on the Office of Housing found that issuance clearance was cumbersome and poorly controlled, which can diffuse accountability.

--In a letter dated February 18, 1982, the Office of Community Planning and Development said existing procedures for clearances of rules and issuances were not working well. This office said that

"not only offices at the Assistant Secretary level, but also the various program offices within these offices each want to review all items which might impact their area of concern in any way, a definition which could easily include nearly every regulation and issuance circulated."

HUD's cumbersome procedures for issuing rules and procedures can prevent policies and technical guidance from being issued on time. For example, the Housing and Community Development Amendments of 1981 were signed into law on August 13, 1981. Although HUD drafted regulations in August 1981, interim rules were not published until October 1982, more than a year later, and became effective November 1, 1983. Without approved regulations, grantees are not sure what they can do under the program and cannot be sure what program standards HUD will use to hold them accountable. Likewise, monitoring and auditing communities' entitlement programs is difficult without the descriptive criteria normally in regulations. Finally, HUD's training program for implementing the 1981 legislative changes was postponed until the regulations are published. Thus, the field may not be properly prepared to assist communities in implementing their programs.

In chapter 4 we note that HUD is trying to streamline the issuances system. The proposed system is more flexible, less time consuming, and intends to limit concurrence to only those entities with substantial interest.

### Communications effectiveness

HUD's organizational structure does not appear to foster good communications. In a large organization where policies, programs, and administrations change frequently, effective communications are necessary.

HUD's communications problems have been discussed for years. A 1976 organizational assessment cited a lack of standardized channels of communications. A 1981 report said that HUD operates under an antiquated communication system. We discussed this issue with officials at headquarters and field locations. Most officials believe that communications is a problem at all levels. But, as in the case of the reports noted, the cause of or solution to the problem was not identified. A joint letter from the Office of Community Planning and Development (CPD), the Office of Housing, and the Office of Fair Housing and Equal Opportunity (FH&EO), touches this issue. This letter to regional administrators and area office managers, dated March 19, 1982, stated:

"In the past our FH&EO, Housing and CPD staff, both in Washington and in the field, tended to view each other differently and at cross-purposes when responding to this major Departmental mission and complying with the law. While the legislative and executive mandates of FH&EO interlock with CPD's and Housing's statutory objectives, and vice versa, conflicting field instructions from Washington presented a different perception. In fact, in some instances CPD, Housing and FH&EO care to perceive each other as adversaries. As a consequence, pursuit of equal opportunity has sometimes become an obstacle, a paper or numbers chase and less a concern with providing realistic, rapid and effective help to localities."

The manner of communications between organization levels may also have an impact on morale and motivation of staff. Through our interviews, we elicited numerous comments about a perceived negative motivational environment. There is probably no one cause for this. Rather, perceptions are that it is an accumulation of many factors, including

- disjointed direction provided by the Secretary, assistant secretaries, and field office managers;
- HUD's changing direction;
- uncertainty regarding potential reorganizations;

--reductions in force; and

--frequent policy and procedural changes.

We recognize that these perceptions are highly subjective and susceptible to influences and interpretations. Therefore, it may not be possible to demonstrate a direct correlation between the perceptions associated with a negative motivational environment on the one hand and productivity and organizational effectiveness on the other. However, it is safe to assume that a sustained negative motivational environment will jeopardize success.

The means for improving communications throughout HUD are many and varied. Promulgating and communicating Secretarial goals, assistant secretary objectives, and action plans by headquarters and field managers, discussed in chapter 3, is a positive step. Improving management processes, discussed throughout this report, should increase the opportunities for contact and communication between top management and staff levels throughout HUD. As such, the direction, feedback, and exchange of views which are essential to an efficiently functioning team should greatly be enhanced.

Resolving communications problems is a difficult task because it involves interaction of people. Therefore, the communications issue may not be entirely attributable to the organizational structure. However, an organization which promotes direct lines of authority, pinpoints responsibility, and limits interaction to offices or people with substantial interest can minimize confusion in the channels of communication.

#### HUD's REORGANIZATION-- AN UNCERTAIN OUTCOME

HUD is now restructuring its field offices and considering a staff reduction at the headquarters level.<sup>2</sup> According to HUD, changes are needed because of program shifts and the need for management efficiencies. HUD's field reorganization reverses a major reorganization in 1977 which weakened the role of the regional administrator and authorized greater decisionmaking and programmatic responsibilities to the area offices.

HUD expects the field reorganization to

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<sup>2</sup>HUD's 1983 appropriation bill was passed with the provision that reorganization could not occur prior to January 1, 1983, without congressional approval. However, on December 8, 1982, a United States Court of Appeals ruled that the provision was unconstitutional and on February 22, 1983, notice of the proposed field reorganization was published in the Federal Register. On September 8, 1983, HUD's field reorganization became effective.

- strengthen the role of the regional administrator,
- provide organizational alternatives in light of reduced resources and proposed program changes,
- consolidate and simplify the current organizational structure,
- reduce field overhead staff and space requirements and be more cost effective in the administration of programs and services, and
- maintain existing regional boundaries to complement other federal departments and agencies.

The field restructuring would reduce budgeted field staff to 9,231 positions in fiscal 1984 compared to 9,858 positions in fiscal 1983. Field offices would be restructured as follows:

	<u>Prior to consolidation</u>	<u>After consolidation</u>	<u>Office increase (decrease)</u>
Regional offices	9	-	(9)
Regional/area offices	1	10	9
Area offices	39	30	(9)
Service offices	33	33	-
Valuation and endorsement stations	8	8	-
Valuation stations	<u>10</u>	<u>10</u>	<u>-</u>
Total	<u>100</u>	<u>91</u>	<u>(9)</u>

As shown above, regional and area offices in nine locations become a single organization. The new regional/area offices retain the current responsibilities and gain the operating responsibilities of the area offices. Additionally, "area office," "service office," and "valuation and endorsement station" will no longer be used; rather, these offices will be referred to as "field offices."

Whether this organizational restructuring will alleviate concerns about the middle tier--the regional offices--is unclear. There are critics. For example, an Assistant Secretary labeled the proposal as a "serious mistake" because there is no agreement or long-range game plan as to the desired field office structure. He believed confusion of roles and responsibilities in the regional offices will exist. He suggested eliminating one tier and establishing 20-25 regions. He recognized the political difficulties and disruptions in a one-time reorganization and recommended an incremental approach over several years.



An August 1982 Congressional Surveys and Investigations Staff report questioned the necessity of consolidating to improve communications. The report states that increasing regional authority and eliminating direct contact between central office and area offices would improve communications. The staff also believes the larger regional offices would have a disproportionate share of the resources allocated to the regional offices and questioned whether they could handle the increased workload. The report cites lack of technical expertise in regional offices and need to reacquaint regional personnel with technical aspects of implementing programs. The report also challenges HUD's position on staff savings, claiming that a reduction of 428 employees in the non-co-located field offices could be accomplished without reorganization.

Other HUD and constituency group officials believe that the consolidation is not viable. For example, an Associate General Deputy Assistant Secretary told us that the regional administrators would not be able to fulfill all responsibilities under the proposed consolidation. He explained that adding area office managers' responsibilities to current regional responsibilities may compound management problems.

On the other hand, HUD field managers were evenly divided as to whether consolidation would benefit HUD. Area office managers were generally against consolidation and regional office managers were generally for it. Advantages centered on cost savings and greater regional control. Disadvantages cited were differences in treating nonconsolidated offices, losing high quality personnel, lack of dollar savings, and no improvements in program delivery.

HUD is striving to consolidate and simplify its field structure without a major change to the field tiers. HUD's reorganization still embraces a regional office concept and a field office presence in most states. Whether it can attain its objectives without significantly altering its field structure is uncertain. As noted above, resistance to change, both from political influences and from within, is an underlying problem.

HUD's operations are complex, influenced by legislative programs and policies as well as by the different management and organizational styles introduced with each changing HUD administration. Improvement of management capacity in these settings needs to address basic management issues and should not represent short-term stopgap measures. One fundamental issue that needs to be addressed is the regional concept of operations and the need for HUD's presence in nearly every state. This politically sensitive issue needs to be debated in order to provide HUD a baseline for resolving field organizational issues.

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**External federalism policies could  
alter HUD's management structure**

HUD appears to be moving away from direct involvement in program delivery. As a result, HUD may have to establish an entirely different structure and different staff skill levels. Conceivably, HUD may eventually end up managing, auditing, or monitoring states, localities, or private contractors delivering programs. Although the outcome of the administration's initiatives is uncertain, several broad questions will have to be addressed:

- Is HUD's presence in nearly every state necessary to accomplish changing mission requirements?
- What type of organizational interfaces will be required with states, local governments, and businesses?
- Is the present structure adaptable to evolving changes and what are the obstacles which may preclude an orderly transition?
- What types of skills will be required and what types of training programs are needed to retrain staff? How should these skills be functionally grouped to effect economies of scale and provide for uniform and consistent administration of programs?

**Changing situations which may lead  
to further organizational revisions**

The 1981 legislative year marked the introduction of the administration's proposal to reduce the federal government's role in accomplishing national objectives and to shift this role to the private sector and state and local governments. For HUD, congressional acceptance of the administration's proposals could result in far-reaching changes.

For housing, the administration wants to limit existing programs and redirect focus from development/construction of housing stock to greater use of existing stock. For community development programs, the Congress has provided the states the option of administering the Community Development Block Grant Program for small cities involving about \$1 billion in federal funding. Additionally, the administration presented a tax incentive concept, called Enterprise Zones, which involves shifting urban development policy from direct federal intervention to tax reliefs as an incentive for improving the business climate.

**Housing** - A major initiative and target of the administration was to minimize the Section 8 Program, established in 1974, and to promote use of existing housing through a program referred to as housing vouchers. The basic concept of vouchers is to encourage households to shop for less expensive housing and negotiate lower

rents. HUD proposed a housing voucher program for fiscal year 1983, but the Congress did not include it in HUD's fiscal year 1983 appropriations act. The Department still believes the concept is sound, and HUD is reintroducing it in 1984 with several refinements to make it more acceptable to the Congress. Additionally, several initiatives stress some form of block grants for housing.

HUD is also considering nonlegislative housing management reforms which relate to managing public housing, multifamily housing, and insurance underwriting. For example, HUD is considering shifting management of public housing to the private sector.

HUD presently has contracts with private vendors to perform a number of tasks relating to its multifamily programs. HUD expects that the entire multifamily HUD-held portfolio will be under servicing and debt collection contracts by the end of 1984.

HUD's management and staffing of its insurance programs will also be affected by a move to direct endorsement. Direct endorsement consists of lenders performing the application process for appraisals, inspections, and mortgage credit analysis. HUD's role could change to monitoring approved lenders for program compliance.

Community development - The administration's policy achievements are more visible in community development. The 1981 amendments to the Housing and Community Development Act, as well as the state administration of the \$1 billion small cities grant program, should make significant changes in the way HUD will manage the block grant entitlement program.

For the CDBG Program, the significant change was fewer federal restrictions on using funds and more reliance on the local decisionmaking process. The formal application process was eliminated in favor of a statement of community development objectives and projected funds use as well as a certification that the program complies with applicable laws. The legislative amendments do not provide HUD with any review or approval responsibility for the final statement. That responsibility is shifted to the grantee who must ensure that each activity funded by a community development block grant is eligible and meets the program's objectives. Accordingly, HUD management is shifting from substantial review of applications to post-award reviews.

The Small Cities Program represents a major shift in the federal role in program delivery. HUD's fiscal year 1983 budget anticipates that up to 36 states will exercise their option to administer the Small Cities Program. Under the present program, the role of CPD staff is to monitor, close out grants, and provide technical assistance to grantees. As the current program phases out and states take over administrative responsibility, this role will change.

Other proposed strategies include terminating a rehabilitation loan program in favor of a rental rehabilitation grant program. This program will assist localities, states, and urban counties in rehabilitating housing units. The grants will subsidize the costs of rehabilitating properties at competitive rental rates and will be linked to the proposed housing voucher program. States and localities will provide funds to individual property owners. Funds may be given as grants, deferred payment loans, or low-interest loans. This program was introduced as a demonstration project in 23 cities. Unlike the loan program, which required loan processors, the rental rehabilitation shifts the field role to providing technical assistance and monitoring local governments which administer the program.

HUD is proposing to continue the Urban Development Action Grant (UDAG) Program but it may eventually compete with the administration's Enterprise Zone Tax Incentives Program. UDAG, directed to distressed communities, is based on the concept that cities can be revitalized more efficiently by the private sector, with the public sector providing "gap" money to make opportunities within the distressed cities.

On the other hand, the urban enterprise zones concept does not rely on direct federal intervention and stimulates improvements by tax incentives. Under this concept, zones in depressed areas within cities and towns would be established. These areas, designated as enterprise zones, would benefit from federal tax relief for businesses and their employees, federal regulatory relief, and a package of urban development incentives provided by state and local jurisdictions. HUD considers this program the foundation for long-term economic revitalization. In its fiscal year 1983 budget, HUD did not request appropriations for this concept because only modest administrative costs at HUD are required to implement this program.

HUD may need to change  
its organization again

The Department's approach to providing housing services and community development programs is changing. But the likelihood and timing of future changes depend on the continual interplay of the economic, political, and social environment. The administration has proposed policy shifts in the way housing and community development assistance programs operate. HUD restructured its field organization to reflect workload and program changes, but more changes may be needed.

**CONSOLIDATING FEDERAL HOUSING  
AND ASSISTANCE ACTIVITIES MAY  
SURFACE AS A NATIONAL ISSUE**

HUD is not the only federal agency delivering housing and community assistance. A range of housing and urban development programs are being administered by various other federal agencies, including the Veteran's Administration, Small Business Administration, and Departments of Agriculture and Commerce. This results in separate operations of various executive structures, each with divergent headquarters and field delivery structures, eligibility standards, regulations, legislative and budgetary mandates, and application processing. An Office of Management and Budget (OMB) report on development assistance programs cites that organizational fragmentation causes serious problems, including

- inefficient use of federal personnel and resources;
- lack of policy focus and direction, making it difficult to devise and implement coherent national policies; and
- no composite federal agency which states, communities, and people can turn to for assistance.

When HUD was established, the Congress recognized that the new Department did not include all federal housing functions. It would now be politically difficult to bring various parts of executive agencies together to unify housing and community development, but it may become easier if the administration is able to transfer more federal responsibilities to state and local governments and the private sector. The fundamental question of whether one agency should incorporate all housing and community development responsibilities may resurface.

**Recognition that HUD would not  
include all related programs**

The issue debated on the HUD bill was how best to focus the fragmented federal housing and urban affairs. The outcome was to transfer to HUD the functions, powers, and duties of essentially one agency--the Housing and Home Finance Agency. Whether the new Department would include all federal programs relating to urban life was debated, but the political forces against further consolidation prevailed. In establishing HUD, the Congress highlighted its intent to establish an executive department to best administer the principal federal programs providing housing and community development assistance.

While the legislation's intent was explicit, it did not make all federal activities a part of the new Department. A historical account of the legislation cites one spokesman testifying that there are literally hundreds of federal urban activities scattered among every single federal agency and not placed in the new Department.

Since HUD's creation, attempts have been made to address the issue of consolidating HUD and a number of agencies into a Department of Community Development. In March 1971, the administration proposed four bills on government reorganization, one of which was a Department of Community Development. And during 1977, the administration directed OMB to review the organization and structure of major federal and local development programs, including community economic development programs. However, no actions were taken on these initiatives.

#### Housing and community assistance administered by other federal agencies

Other federal agencies administer housing and community activities. For housing, two agencies in particular administer housing assistance. Farmers Home Administration (FmHA) and Veterans Administration (VA) direct housing assistance to rural families and veterans, respectively. For community development, the Economic Development Administration (EDA) and the Small Business Administration (SBA) direct federal monetary assistance to distressed communities and businesses.

#### Non-HUD housing assistance

FmHA and VA influence the housing market. FmHA of the Department of Agriculture provides loan assistance to low- and moderate-income families purchasing or improving single-family homes. FmHA is also involved in providing loans to developers of multifamily housing, and rent supplements to needy families and has proposed providing rural housing block grants. FmHA also provides development funds for projects like water and waste disposal systems. Similarly, VA provides housing assistance to veterans. VA's housing programs employ about 1,800 full-time persons. Its field structure includes a central office and 50 regional offices. VA's fiscal year 1982 loan volume was about \$5.5 billion covering about 100,000 loans.

For fiscal year 1982, FmHA made about 83,000 single-family loans amounting to about \$2.5 billion and 1,500 multifamily loans amounting to about \$965 million. About 5,000 permanent, full-time staff deliver FmHA programs. These people are located in 2,262 offices throughout the nation.

Other major housing and housing related agencies include the Bureau of Indian Affairs, Department of Defense, Federal Home Loan Mortgage Corporation, and Federal Home Loan Bank Board.

#### Non-HUD community and development assistance

In community development, EDA delivers federal government program efforts directed specifically to the economic needs of distressed communities. EDA uses planning and technical assistance grants, public work grants, and direct and guaranteed

loans to promote long-term recovery of economically distressed areas by reducing unemployment and underemployment, increasing family incomes, strengthening bases of local communities, and assisting the construction of facilities providing essential services to low-income groups. EDA's loan volume amounts to about \$1.5 billion covering about 1,800 loans. About 500 staff in a central office and 6 regional offices administer the efforts.

SBA promotes and supplements private capital to meet the financial needs of small businesses. Aside from its loan programs, SBA also assists small businesses in obtaining long-term debt and equity capital through its Small Business Investment Company Program. SBA's loan volume amounts to about \$17 billion. SBA has 4,000 employees to administer the program. SBA's field structure is similar to HUD's and includes a central office, 10 regional offices, and about 80 field offices.

Other federal agencies crosscutting community development include the Minority Business Development Administration, the Federal Emergency Management Agency, and the Rural Electrification Administration.

#### Further consolidation may be appropriate

A major federalism goal is to reduce the cost and size of the federal government. Shifting responsibilities to state and local governments and the private sector may achieve this goal. If the administration and the Congress move in this direction, it may be necessary to rethink the appropriateness of the present executive structure for administering programs such as housing and community assistance. How and why the present structure exists may no longer be an issue; instead, how best to formulate strategies to enhance a national policy focus and provide uniform federal direction to non-federal entities administering the programs may be the issue.

Resolving debate over the appropriate executive structure for housing and urban assistance programs will be evolutionary as each federalism policy is introduced. Past experiences demonstrate the difficulty in making a convincing case for consolidating these activities, but as direct federal involvement declines, past factors may no longer dominate. In debating federalism issues, a corollary issue facing the Congress is the implications for similar programs administered by various agencies and whether the programs are sufficiently unique to justify separate implementation by several agencies.

#### CONCLUSIONS

Historically, HUD's organizational structure has been characterized by instability. Changes were influenced by social, economic, and political forces and a continual search for ways to effectively and efficiently implement programs. How HUD will look

and operate in the future is uncertain. But one thing is certain, as an executive agency, it will continue to undergo change as social and economic demands change and as new policies and programs are introduced.

The many reorganizations and realignments since HUD's inception have formed a complex relationship among levels of management. The net result is that a certain amount of confusion exists at all levels concerning authority, responsibilities, and functions. Consequently, complexities and difficulties increase in providing and administering services to clientele.

A persistent issue is the role, relationship, and effectiveness of regional offices as a middle tier of management. When the regions were established, the concept was that headquarters would be the policymaker, the regions would supervise, and the area office would operate the programs. Now HUD is placing regional managers back into the operational chain and holding them responsible for direct program operation and execution. This has the immediate effect of reversing the 1977 reorganization, which was intended to correct deficiencies in processing delays, communication, excessive overhead, and inadequate technical assistance.

Many issues in this report may not be entirely attributable to the organizational structure. Many can be avoided with improved management practices. In order for HUD's decentralized operating philosophy to work more effectively, a direct line authority organizational structure may be needed. While the concept of providing direct lines of authority is relatively simple, effective application of the concept is complex in a three-tiered structure.

Given that HUD is already experiencing less activity in some programs, elimination of some programs, transfer of some programs to states, and reduced funding levels, the issue is whether all tiers are necessary or if one could be eliminated. In evaluating these possibilities, HUD may have to come to grips with the issue of how to foster clear and direct lines of authority between the central office and operating field offices.

In the future, HUD must decide upon the appropriate organizational form of an operating field office. If HUD's programs do shift to states and local governments and the private sector, HUD's current operational structure could become obsolete. What may eventually emerge is a single responsibility to monitor and/or audit states, localities, or private contractors. Therefore, HUD may have to explore options which would adapt to changing priorities with minimum disruption.

Over and beyond these HUD organizational issues is the possibility of renewed focus on how best to promote housing and communities from a unified standpoint. Doubts exist about the political acceptability of the theory of bringing various parts of



executive agencies together to achieve a unified goal in housing and community development. However, doubts may give way if the administration accomplishes initiatives aimed at transferring more federal responsibilities to states and the private sector. Also, budget constraints may invoke a greater understanding of the impact on the intended beneficiaries of dispersed programs now existing among executive agencies.

HUD is faced with a great amount of uncertainty due to the possible changing federal role in housing and community affairs. The basic effect of uncertainty is to limit the ability of the organization to plan or make decisions about the appropriate organizational design.

#### RECOMMENDATIONS TO THE SECRETARY OF HOUSING AND URBAN DEVELOPMENT

HUD's Secretary should evaluate how well the new field structure is working. In this evaluation the Secretary should determine:

- whether functional relationships among headquarters, regions, and field offices promote accountability and establish clear lines of authority;
- the value of and contribution of regional offices in the management and delivery of programs;
- the cost and benefits of having field offices in all states, especially in the environment of a declining federal role; and
- the relationship of ongoing and proposed policy and program changes to any organizational change.

#### AGENCY COMMENTS AND OUR EVALUATION

HUD's Secretary commented that our report accurately characterized the changes in program direction the Department is experiencing and noted that the present organizational structure may not be entirely appropriate to the new direction. The Secretary, however, took issue with our draft proposal to reevaluate the appropriateness of the field reorganization by stating that the additional time needed for such study would only further delay the process of making needed staffing adjustments. The Secretary commented that the issues of field reorganization have been studied at length and believed that the reorganization will address other issues in the report. The Secretary finalized the proposed field reorganization on September 8, 1983.

We disagreed with HUD's field reorganization and stated so in two reports (GAO/RCED-83-100 and GAO/RCED-83-155) and in our May 26, 1983 testimony before the House Subcommittee on Housing and Community Development, Committee on Banking, Finance, and

Urban Affairs. Since HUD has finalized its reorganization our draft proposals are now moot. However, we do not believe the reorganization has fully addressed the problems discussed in this chapter. Although we are not recommending HUD's Secretary modify, at this time, the new field structure, we do believe the Secretary should evaluate how well the new field structure is working by addressing specific points contained in this chapter. We have modified the recommendation to the Secretary accordingly.

Our position is also buttressed by the fact that HUD, as it notes in its comments, is (1) revising its operational planning system to provide direction to its field offices and (2) planning a pilot staffing analysis in the Housing area to determine the type of skills which will be appropriate in HUD field offices. Resolution of these actions is fundamental to establishing the appropriate size and organizational arrangement of HUD field offices.

Operational plans provide the mechanism for program and administrative accountability and communication between assistant secretaries and field office managers. Such accountability and communication is particularly important given HUD's organizational structure which has direct lines of authority from the field offices to the Secretary. Further, not having completed a staff analysis, HUD has no sound basis for making staffing adjustments.

## CHAPTER 3

### PLANNING AND BUDGETING TO ACHIEVE

#### EFFECTIVE PROGRAM DIRECTION AND CONTROL

Planning and budgeting must play an important role if HUD is to be successful in managing the transition from programs stressing production and growth to those stressing preservation and maintenance of existing housing and greater emphasis on cost control and reliance on the private sector.

We found, however, that (1) HUD's reliance on the budget development process as its mechanism for providing direction and control has not served as an effective proxy for systems needed to plan, develop policy, and communicate Secretarial expectations for the coming years, (2) short-term budget and legislative cycles can have a negative influence in providing timely field guidance, developing long-range program plans, and developing complete policy proposals, (3) limitations in the analytical base reduce effective budget development and execution monitoring, and (4) budget justification and practices reduce full budgetary disclosure and congressional control.

The conditions exist because of the lack of top management emphasis on the importance of planning, the design and timing of the federal budget process, fragmented financial and data systems, and a lack of accountability.

The results have been a weakening of management, program effectiveness, and congressional oversight; program designs that are not easily managed; and increased risk of misdirection and unnecessary federal expenses. HUD recognizes some of these consequences and is moving to develop a "management plan process." It is too soon, however, to determine whether the new process will adequately address current needs.

The new process offers the Secretary an opportunity to more effectively manage if

- accountability for department-wide planning is established;
- the planning process is based upon an adequate assessment of needs and congressional actions and identifies for a multi-year period Secretarial goals, realistic program objectives, and annual program priorities;
- a more systematic approach to formulating policy is included; and
- improvement continues in the accuracy and timeliness of financial and program data, workload and work force requirements estimates, and in integrating program evaluation results.

In addition, the Congress can strengthen its oversight of HUD's budgetary process by requiring HUD to expand its budget justification to fully reflect all material aspects of uncontrollable costs and the budgetary and economic impact of programs on future agency needs and on federal tax collections. Further, the Congress, in moving to reform the federal budget process, could consider HUD's problems associated with long-range planning, policy development, and providing timely program guidance.

#### HUD's PLANNING SYSTEM-- BUDGET DEVELOPMENT

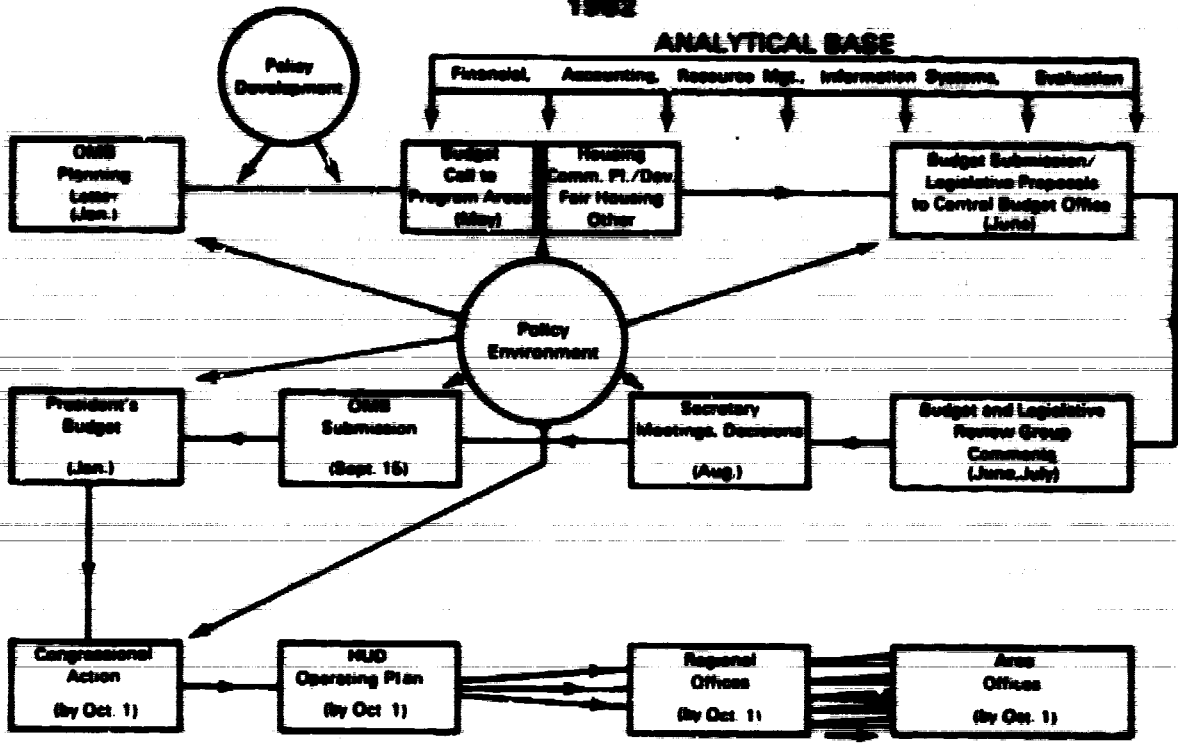
HUD's primary planning system is found in the budget development process. A schematic of the process is shown on figure 3-1 on page 39. This process normally begins in January, 12 months before the President's budget is presented to the Congress and about 21 months before funds are appropriated. The cycle starts with a planning letter from OMB, containing guidance from the President. Within HUD, the Office of Budget, under the Assistant Secretary for Administration, is responsible for departmental coordination and analysis of the input received from 11 headquarters elements. Traditionally, these elements are asked to start working on their respective inputs in May or about 4 months after OMB's planning letter. Their input is in the form of estimated program levels, workload forecasts, and resource requirements. Policy proposals are channeled from HUD offices through their respective assistant secretaries for review and approval before they are submitted to the legislative and budgetary review process.

After the budget and legislative package is processed by the Office of Budget, a budget and legislative review group, on behalf of the Secretary, analyzes and comments on the package. This group, established in 1981, is represented by General Counsel, Assistant Secretary for Policy Development and Research (PD&R), Assistant Secretary for Legislative and Congressional Affairs, and Assistant Secretary for Administration. The Secretary has final say over the end product which is sent to OMB during September, about 9 months after start of the cycle. OMB and HUD meet to reconcile differences. HUD's portion is then incorporated into the President's budget which is forwarded to the Congress in January or 12 months after the start of the cycle. After this, the congressional review continues until funds are appropriated.

Through fiscal year 1982, HUD executed its budget with its operating plan. In existence since 1974, and modified several times since, the operating plan has now been abandoned by HUD. A new vehicle is being developed which is called the "management plan process." The process is expected to be used to prepare management plans for headquarters and regional offices starting in 1983.

**Figure 3-1**

**HUD'S MANAGEMENT SYSTEM-  
THE BUDGET PROCESS  
1982**



82 Budget: Approp. on Dec. 23, 1981  
 83 Budget: Approp. on Sept. 30, 1982\*  
 \* Minus Subsidized Housing Not Authorized.

82 Budget: Nov. (Preliminaries)  
 Apr. (Final)

**BEST DOCUMENT AVAILABLE**

**BUDGET DEVELOPMENT PROCESS:**  
**NO SUBSTITUTE FOR**  
**DEPARTMENT-WIDE PLANNING**

HUD relies on its budget development process, its related documents, and the operating plan<sup>1</sup> as a vehicle for (1) communicating agency-wide direction and focus chosen by the Secretary, (2) developing policy, and (3) establishing program direction. We found no other systems or process which served as input to and guidance for policy development or program planning. In short, we found no systematic approach or accountability for agency-wide planning. Figure 3-2 on page 41 depicts our view of the planning process existing during our review.

Shortcomings in the department-wide planning process led to a 1982 operating plan which misdirected agency activities and program planning and policy development that have been ad hoc and reactive rather than anticipatory and preventive.

**Operating priorities**  
**misdirect agency activities**

We found that the priorities in HUD's 1982 operating plan misdirected agency activities and were underutilized by headquarters managers as part of a total system for measuring operational efficiency and holding subordinate units accountable. Problems associated with the inflexibility of the system to accommodate changing priorities, untrustworthiness of the data used to measure results, and the system's inability to measure the quality of performance are, in part, caused by the operating plan process. The root cause, however, lies in the lack of clearly articulated direction and focus from the Secretary, and the Department's system for communicating this direction.

During our review, HUD executed its budget through "secretarial priorities" which were defined and tracked via its operating plan--the vehicle for communicating direction to the staff and allocating resources. For fiscal year 1982, 17 Secretarial priorities were specified, ranging from reducing opportunities for fraud, waste, and mismanagement to assuring commitment of funds for minority businesses. Within these broad priorities, a variety of objectives and subobjectives were enumerated--68 in total. These were the primary objectives (shown in appendix IX) to which field offices were held accountable. These objectives were expressed primarily in quantitative terms and a detailed reporting system tracked their accomplishment. To achieve these priorities and other work activities, headquarters allocated staff to regional offices who then suballocated to area offices. Each

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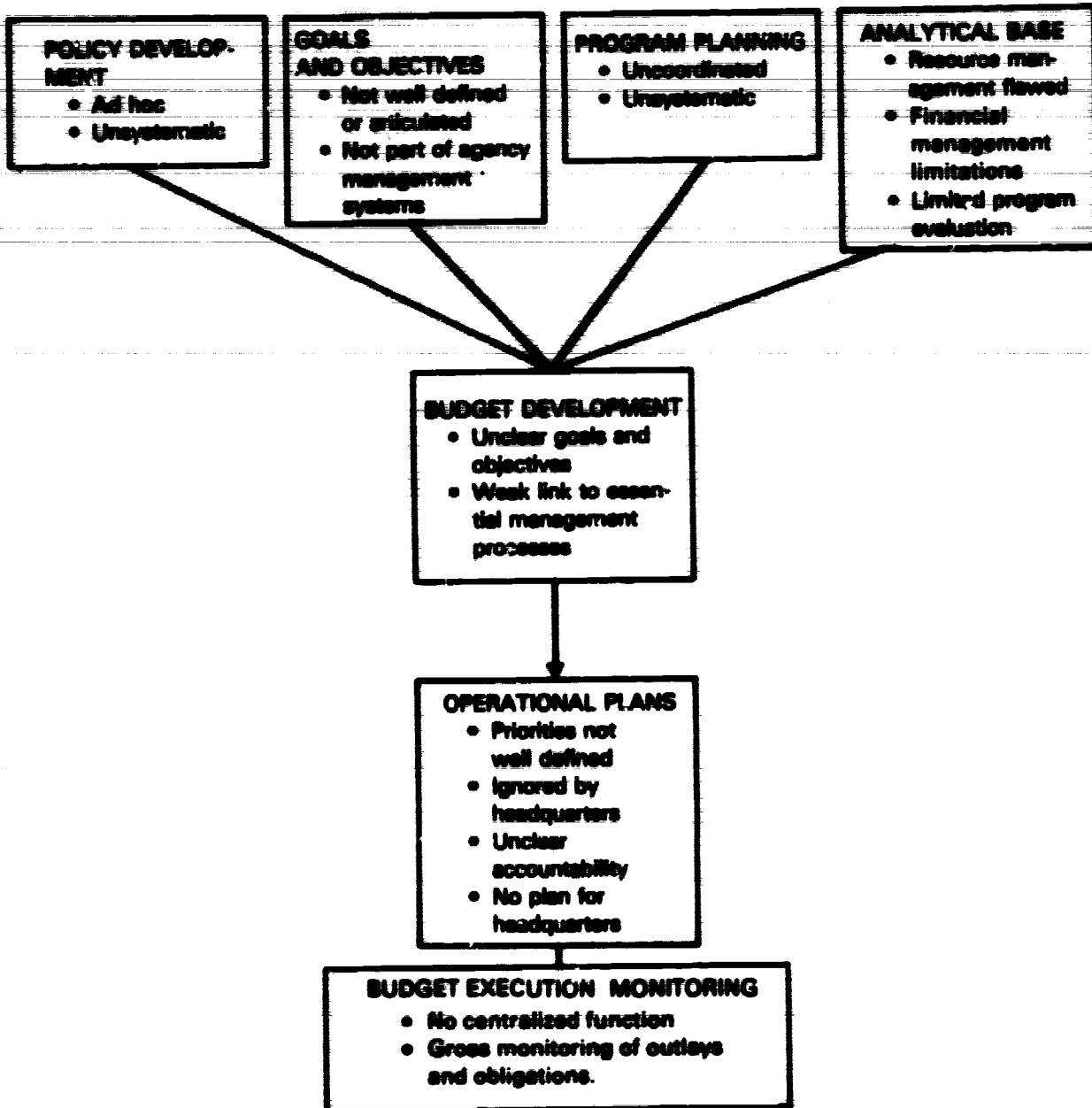
<sup>1</sup>The operating plan was part of HUD's Resource Management System outlined in appendix VIII.

**Figure 3-2**

# **GAO'S PERSPECTIVE ON HUD'S PLANNING PROCESS**

**Basic Problems:**

- Unclear linkages between elements
- Goals and objectives not well integrated
- Accountability for planning and program implementation results not established



program assistant secretary and the Assistant Secretary for Administration articulated his or her priorities based on "generally known" Secretarial direction and was responsible for tracking their accomplishment and making adjustments based on results. Although the system itself was operated by the Assistant Secretary for Administration, the substance of plans was the responsibility of program assistant secretaries.

Current HUD top managers were uncomfortable with the operating plan as a basic management tool, and although they issued a simplified version for fiscal year 1982, it was largely ignored by headquarters despite its impact on the field offices.

The Assistant Secretary for Housing, for example, stated that he was not sure how or if his subordinates used the operating plan. The Assistant Secretary for Fair Housing and Equal Opportunity expressed similar sentiments as did the Assistant Secretary for Administration whose office operated the system. Reasons cited for not using the system included the inflexibility of the system to accommodate changing priorities, poor quality of the data used to measure results, and the system's inability to measure the quality of performance. As a result, the system did not provide managers with the information they needed to manage effectively.

Although we concur with these shortcomings of the operating plan system and recognize management's prerogative to develop a management plan more consistent with personal style, not all of the past problems are attributable to systemic causes. We found the following problems stemming from the way the operating plan was used:

- poorly defined priorities,
- conflicting priorities, and
- delays in providing guidance.

Priorities are poorly defined

Many headquarters and field office officials expressed concern that Secretarial priorities tended to emphasize "quantity" over "quality". A common criticism we found was the need for various monitoring visits prescribed in several housing and CPD Secretarial priorities. For example, performing 100 percent of comprehensive coordinated reviews in public housing is a priority which forces area offices to give equal oversight to good as well as bad performers. Thus, areas requiring the most attention are getting less. Similar problems were found in CPD monitoring priorities requiring visits to untroubled cities solely to meet the quantity level set by headquarters, rather than concentrating on problem localities.



The quantity over quality issue is caused by the way priorities and objectives are stated. They generally emphasize the completion of a process as opposed to desired results. For example, "To perform monitoring reviews," a housing Secretarial priority, does not provide clear guidance for improving monitoring. More specificity is needed. For example, "minimizing potential for fraud and waste among high risk performers" would provide more specificity coupled with describing appropriate objectives, subobjectives, tasks, and activities which clearly relate to goal achievement of the priority. Also, priority objectives often did not provide a true measure of accomplishment. For example, a 1982 CPD Secretarial priority was "to improve efficiency and effectiveness of program implementation and to minimize potential for fraud, waste and mismanagement through monitoring of and technical assistance to CPD program recipients." The subobjectives for this priority were expressed in terms of numbers of monitoring visits. However, reporting monitoring visits gives little indication of the extent to which HUD is improving program efficiency and minimizing fraud, waste, and mismanagement. Several other priorities were similarly defined and measured and further illustrate why priorities did not provide meaningful program performance feedback.

A related problem is the potential for objectives being "artificially" achieved. For example, field offices met a priority of increasing debt collection from Section 202 construction loans by expediting payments to the debtors which in turn used to pay interest due HUD. This increased HUD's collections.

Another problem with the priorities is the poor quality of the data base used to establish achievement levels and measure results, according to program officials who track priorities. An internal study by HUD's Assistant Secretary for Administration also cited this as a problem with the operating plan. Problems of data quality are serious issues at HUD and are discussed in chapters 4 and 5.

Finally, some area office staff were accountable for goal achievement which was not within their control. For example, a priority to reduce the inventory of HUD-held properties was heavily influenced by acquisitions, which was beyond HUD's immediate control at the field office level. Another example involved the priority to reduce the balance of "sustained disallowed costs" by 75 percent. These are grantee expenditures disallowed by local government and independent auditors and verified by HUD. In the Philadelphia Area Office, 35 percent of the disallowed costs are attributable to financially plagued public housing authorities which are unable to pay back these costs because of their poor financial condition. Thus, even if all of the remaining disallowed costs from other authorities and program participants were collected, the 75 percent goal could not be achieved. Another unrealistic Secretarial priority was assuring that HUD grantees and contractors deposit at least \$100 million of federal funds in minority owned and controlled financial institutions.

The Philadelphia Area Office has only one such bank, and an area equal opportunity officer told us that headquarters said the bank was ineligible for use by program recipients. Headquarter's FHEO officials were uncertain as to why this bank was ineligible. They noted, however, that because of program requirement changes the bank is now eligible.

#### Some priorities conflict with other guidance

Achieving priorities has also conflicted with other policies and procedures. For example, Philadelphia had a Secretarial priority to collect \$4.6 million of its delinquent loan balance of \$17.7 million in fiscal year 1982. Since many of these delinquent loans are under HUD-negotiated agreements which allow for less than full mortgage payments, increasing collections could only be achieved by eliminating a requirement in HUD's Mortgage Insurance Handbook to assist mortgagors in meeting mortgage payments. A similar situation occurs with the priority to increase the recovery of HUD's investment on acquired properties. The priority conflicts with HUD's Property Disposition Handbook which requires HUD to sell properties "as is," a procedure established to eliminate costly repair work. In other instances, program officials in Philadelphia and Seattle told us that in order to meet all the on-site visits required by various housing and CPD priorities, they would tend to be more "superficial" in their visits. In other words, full satisfaction of all handbook requirements would not be fulfilled during on-site reviews that did occur.

#### Delays in providing guidance

A persistent problem HUD faces is HUD's inability to provide the field offices with program priorities and staffing levels in a timely manner. For fiscal year 1982, guidance was transmitted to the field on April 1, 1982, 6 months into the fiscal year. HUD was also several months late in issuing its 1981 plan. For fiscal year 1983, guidance has still not been provided (as of October 1983). As a result of these delays, field office program officials cannot plan their work effectively and must compress their workload into unrealistically short timeframes. The result is disruption and inefficiency. In the Seattle Area Office, for example, we found that a major review of the area's largest PHA was required to be performed sooner than expected and sooner than employees could effectively accomplish it due to the late operating plan issuance. Program staff in Seattle and San Antonio Area Offices all cited late issuance of the plan as a major impediment to efficient operations. Agency officials told us that delays in receiving appropriations (HUD operated on continuing resolutions until December 23, 1982) from the Congress caused delays in issuing the operating plan the last few years. We recognize this is a contributing factor, but we also believe that management should not wait until final numbers are received from the Congress before giving program staff basic guidance.

In summary, we believe that the shortcomings of the operating plan to provide meaningful direction to staff and feedback on results are due not only to system flaws but also due to its management. Regardless of what system is used, priorities must be clear, consistent, and provided on a timely basis.

#### Program planning is ad hoc

We found HUD's programs are being implemented without the benefit of a systematic planning approach and the planning that does take place is ad hoc and uncoordinated.

Program planning is the coordinated, systematic development of tasks and timeframes and the assignment of responsibilities to carry out specific programs. It is an important management function which precedes program implementation and should be part of a total agency effort to translate goals and objectives into an action plan for determining how a regulation or policy should be implemented. Program planning is an integral part of budget preparation and operational planning.

Lack of adequate program planning has serious consequences and can impair program effectiveness. For example, the Small Cities Block Grant Program is being transferred to state control, a move which has implications for HUD with respect to field office staffing levels, monitoring policies, and overall program administration. Program officials in HUD told us that this program has a significant impact on field workload and staffing needs, yet we could not find any plan which addresses this important issue.

By contrast, HUD has engaged in good program planning in the case of enterprise zones. Program managers initiated a task force approach to develop a workable program plan which used expertise within the Department and sought and obtained the necessary commitment of top management. Members of the task force included representatives from headquarters and field offices.

We found that the major reasons for an absence of effective program planning are

- a lack of a program planning process,
- inadequate use of field office assistance, and
- an absence of top management support for planning.

Overall HUD has no formal process or procedures for program planning. There are no policies, guidelines, handbooks or memoranda explaining such a process. While program managers told us they generally know what is required in a good plan, without a more formal process and structure for controlling and implementing the planning procedure, planning degenerates into a set of uncoordinated actions and efforts. Program managers throughout HUD told us they are consumed by day-to-day problems of managing

their programs and that alone they cannot perform the necessary long-range planning tasks effectively.

The absence of a formal planning process contributes to the inadequate use of field offices for program planning input and is an opportunity lost for improved planning. Area and regional office staff have little or no effective input into program planning, despite having indepth working knowledge of HUD's program delivery. Their knowledge of programs and advice on potential delivery flaws is crucial information that should not be ignored. HUD officials told us that in the past, task forces were frequently used to develop program designs and field managers were usually included. This process is now used infrequently. HUD managers in headquarters and in the field agreed that field input is needed during program planning. A HUD field official commented to us that the field could be particularly helpful in identifying staffing resources necessary to carry out program proposals and training needed to upgrade skills and expertise necessary to deliver programs in the most effective manner. Headquarters officials told us that the reason field staff were not consulted on a more frequent basis centered on lack of travel funds, poor quality input, and inappropriateness of field involvement.

Top management has not strongly supported program planning as evidenced by lack of a formal process and inadequate attention given to agency-wide planning as a whole. Experts agree that top management support of and commitment to planning are necessary prerequisites to effective planning implementation by subordinates.

We believe the need for improved program planning in HUD is evidenced by the high degree of coordination required among its diverse yet interrelated program areas and by the changing policy focus of HUD's mission. Planning coordination is needed, for example, between CPD and Housing. Block grant regulations require that eligible entitlement cities prepare housing assistance plans. Although the grants are administered by CPD, the housing plans are also used by Housing for administering Section 8 low-income housing projects. CPD also administers a new Rental Housing Rehabilitation Program, tenants of which will, under the proposal, be eligible for the new modified housing certificates, to be administered by Housing. The need to coordinate between program areas is also seen in fair housing. This program area has the responsibility for assuring that both HUD and HUD grantees do not discriminate under various federal laws. FHEO staff must closely coordinate with and participate in many Housing and CPD functions to assure compliance with regulations.

Using the comments provided by program managers throughout HUD, we assembled the following elements now being used or considered important as part of their program planning:

- stating goals, objectives, subobjective tasks, and activities necessary to implement a program;

- establishing timeframes for completion of various planning components;
- developing budget estimates;
- developing implementing structure, including assigning staff and establishing internal controls;
- developing a regulatory preparation plan;
- developing an evaluation plan which includes articulating information needs and criteria for measuring program results;
- establishing staff requirements, including skills needed and training strategies;
- developing strategies for technical assistance and program participant monitoring; and
- conducting fraud vulnerability and management control assessments.

As can be seen from the list above, individual program managers are aware of the important elements needed for an effective program plan. Collectively their views can provide the framework for establishing procedures which describe the purpose and objectives of program planning, how it is to be performed throughout HUD, and who is accountable for results.

### Policy development disjointed

Formalized procedures to guide policy development<sup>2</sup> during the budget-legislative preparation process do not exist. Because of a lack of formal procedures, HUD policies have been developed in a variety of ways. For example, HUD's proposal to retain the Urban Development Action Grant Program was made primarily in the Secretary's office. The Secretary's decision was made largely on the results of an internal study that found this program was (1) meeting its legislative objectives, and (2) working efficiently and effectively. Conversely, the Department's fiscal year 1983 Housing Voucher Program proposal evolved as a result of the contributions of many HUD offices. Although these two major HUD proposals had different development origins, we also found several developmental differences and weaknesses both in terms of program design and approach. For example, the grant program decision was

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<sup>2</sup>Policy is a widely used term and is often synonymous with goals, objectives, internal memoranda, and regulatory guidance. For our purposes, we associate HUD's policy development with HUD's statement of legislative proposals which direct resources or provide new initiatives to achieve HUD's mission.

based primarily on a study of limited scope and detail. No analysis was done to compare the Urban Development Action Grant Program with any other approach to accomplish the program's legislative objectives. However, the voucher concept and fiscal year 1983 program design were the product of extensive HUD discussions, research, study, and comparison with other approaches. To its detriment however, the voucher proposal did not contain an evaluation of HUD staff resources or skills available to implement the program efficiently and effectively.

Although we cannot assess the results of these developmental differences, the lack of a consistent policy development approach runs the risk of programs being designed that are not easily managed or are especially susceptible to fraud, waste, and mismanagement. HUD's past vulnerability to these problem areas--which are further discussed in chapter 4--suggests a need for a more systematic policy development process. Through a policy development process which includes formal procedures, HUD would be in a position to undertake a systematic and thorough assessment of what will be required--in the way of resources, staffing, and functional organization--to give a proposed policy credibility and a realistic chance of success. Such procedures could include

- specific congressional concerns surrounding an issue;
- other policy or management initiatives which may affect the one being developed;
- HUD internal management concerns such as staffing, financial management support, and evaluative criteria; and
- future funding implications.

#### HUD needs a department-wide planning process

HUD needs a department-wide planning process to provide focus and direction during budget development, to enhance policy development and program planning, to strengthen operational planning, and to provide a framework for analysis of budget execution. Such a process could include these components:

- strategic planning,
- policy development procedures,
- program planning,
- budget development,
- operating plans,
- budget execution monitoring, and

--accountability.

Figure 3-3 on page 50 depicts our view of what is needed in a department-wide planning system at HUD.

### Strategic planning

Strategic planning includes defining the organization mission, setting clear, specific goals and objectives, and setting priorities for achieving goals and objectives. A good vehicle for articulating these would be a multi-year Secretarial plan.

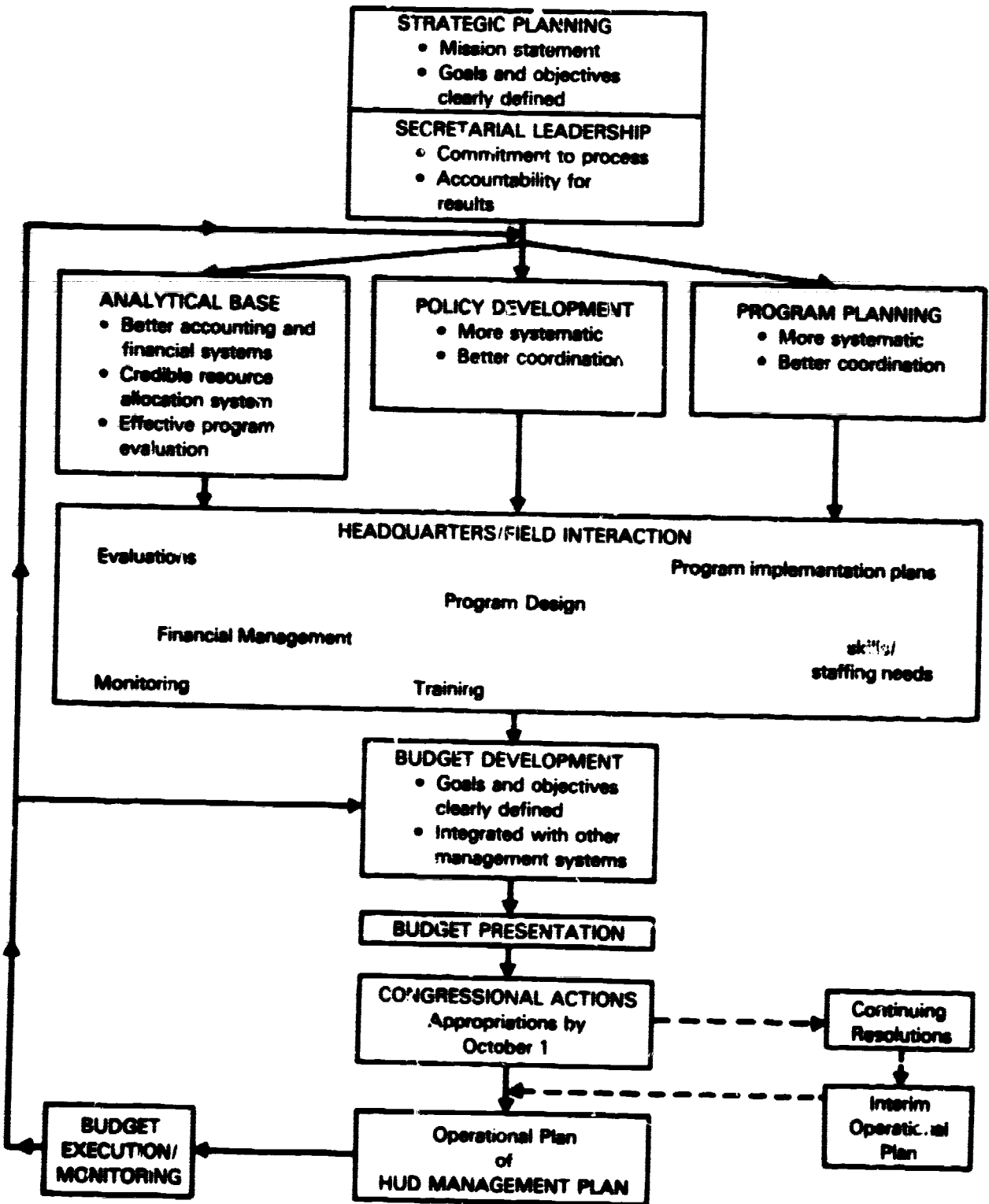
We were told by a top official that the direction and focus of the Secretary was known and that the specific goals were contained in the Statement of Budget Justification provided to the appropriations committees. In reviewing the Congressional Justification for 1983 Estimates, however, we found no clear statement of goals and objectives. What might be considered objectives, in our opinion, are more a presentation of proposed program changes. For example, individual programs were presented under separate groupings such as housing, community planning and development, and fair housing and equal opportunity with a discussion of proposed changes. In essence, each program was treated in isolation without a sense of significance and priority or how it fits into overall agency objectives.

In this respect, introduction material for Housing States, "The 1983 Budget marks a major shift in the way the federal government will provide future housing assistance to needy families." It goes on to introduce the proposed modified housing certificate program. In a later section on assisted housing, there is some rationale as to this new approach. This rationale includes slowing the growth of federal spending by limiting the number of assisted housing units without abandoning the government's responsibility to assist needy families; ending new construction for assisted housing and using the existing inventory more cost effectively; introducing a Section 8 Modified Certificate Program to subsidize needy families in housing of their choice; a new program of grants to rehabilitate existing housing; and a review of projects in preconstruction and construction with a view toward terminating those making insufficient progress. Only after research through several volumes can one begin to formulate what could be called a goals and objectives statement for all HUD housing programs.

Articulating Secretarial goals and objectives in the budget justification can provide a direct link between the budget and operational plans. This link would be a framework for program objectives which could be used to plan and execute the budget, track achievement, and assess how well HUD has carried out its past programs in relation to current projections. Ideally, a strategic plan would exist as a base for all this. We found no such plan. We believe clearer direction is crucial during a period of changing policies such as HUD is undergoing now. A

Figure 3-3

# HUD NEEDS A DEPARTMENT-WIDE PLANNING PROCESS





Secretarial statement of goals and objectives for a multi-year period can provide this direction to assistant secretaries, program managers and staff, as program beneficiaries and provide a benchmark for policy and budget development.

### Policy development procedures

As described earlier, the lack of a consistent policy development approach runs the risk of programs and policies being implemented that are difficult to manage or especially susceptible to fraud and waste. A systematic policy development process is needed which could include procedures for identifying important political and economic issues, internal management concerns, and other initiatives affecting the policy under development.

### Program planning

As stated earlier, HUD's programs are being implemented without the benefit of a systematic planning approach and the planning that does occur is ad hoc and uncoordinated. Although elements of good program planning are taking place within HUD, they need to be established in a central framework. Those elements include stating the specific objectives, tasks, timeframes, and costs necessary to implement a program; establishing a structure to accomplish tasks, including staff needs and skills; and developing strategies for regulation and evaluation.

### Budget development

Budget development is that critical step when plans, proposals, and decisions are put in dollar terms and refined. As described later in this chapter, problems of short federal budget and legislative cycles, along with delays in funding, adversely affect HUD planning and decisionmaking which feed budget development. These problems contribute to a short-term focus, uncertainty beyond the legislatively authorized period, and a lack of long-range planning in HUD. These problems point to a need for multi-year budgeting, a solution increasingly recognized in budget reform circles.

### Operational plans

Operational plans, the end result of HUD's various planning and budget efforts, were described earlier as lacking in well-defined priorities and underutilized as an effective management tool. The priorities represented in the operating plan need to be clearly linked to Secretarial goals and objectives and to the budget. Such a link does not now exist.

### Budget execution monitoring

As described later in this chapter, budget execution monitoring is needed to compare actual program performance with the approved budget.

## Accountability

For a department-wide planning process to be successful, the Secretary and other top managers must give their support and commitment. Further, the Secretary must delegate to a person specific planning responsibility and accountability.<sup>3</sup> Once established, this person could provide the central direction and control not only for strategic planning, but also for policy development, program planning, budget development, and operational planning.

### HUD's management plan process

HUD's "management plan process," while in the formulation phase, suggests that HUD is moving in the right direction. The process is intended to better communicate Secretarial goals, hold program and field managers accountable, allow more realistic field resource allocations, and be less burdensome to administer. Key elements of the new process include:

- Secretary's Goals. These will provide the basic direction for the Department and are expected to stay the same through fiscal year 1984. They will be broadly framed and will include goal descriptions such as "provide cost-effective housing for those genuinely in need", and "implement more cost-effective ways of operating the Department".<sup>4</sup>
- Management Plans. Separate plans will be developed for headquarters and regions and will contain the policies and strategies to support the Secretarial goals. Headquarters plans will contain goals, objectives, performance measures, technical guidance, and resource allocations for each region. Objectives for the field offices will result from field-headquarters negotiations. Each assistant secretary will prepare plans based on separate negotiations with each regional administrator. Regional administrators will also prepare management plans which address how each region will meet the headquarters management plans.
- Resource Allocation Guideline System. A new system for allocating staff resources will be developed to provide guidelines for staffing allocations and budget estimates and to serve as a data base for other productivity

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<sup>3</sup>Chapter 6 suggests alternative organizational alignments to improve accountability for general management functions, such as planning.

<sup>4</sup>During the course of our review, the Secretary provided the President a mid-year review document which stated HUD's broad objectives.

management systems. Productivity ratios will serve as the base point for negotiations over staffing requirements to support operating objectives.

--Secretarial Progress Reports. Headquarters program managers will report monthly to the Secretary on progress toward objectives. Reporting requirements will be specified in the various management plans and the emphasis will be on using existing automated systems for data needs although some manual data collection is anticipated. On-site visits will be used to assure that an overdependence on narrative reporting does not develop.

The process is in the formulation phase and HUD anticipates that all headquarters plans will be issued in 1983. Although HUD appears to be moving in the right direction, it is too early to predict the effectiveness of the new process and to what extent it will provide management with a vehicle to resolve management problems discussed in this chapter.

#### BUDGET AND LEGISLATIVE PROCESSES AFFECT MANAGEMENT

Consequences associated with short budget and legislative cycles, coupled with delays in funding, contribute to problems for HUD management. Short periods of legislative authorization for many of HUD's programs permit a short-term focus and uncertainty beyond the authorized period. With agency management primarily focusing on the annual cycle of events, HUD program managers and program recipients do not systematically consider long-range planning. Further, delays in receiving appropriated funds, a common problem for HUD and many other agencies, also inhibit planning and cause untimely guidance on budget year priorities to be given to program staff.

#### Funding delays inhibit planning and operational guidance

A well known and often discussed problem with the federal budget process that affects federal agencies is the delay by the Congress in passing appropriations. The disruptive effects of such delays are well known. Two recent reports by us surveyed the extent of late appropriations and the use of continuing resolutions and presented an analysis of the effects of funding gaps.<sup>5</sup>

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<sup>5</sup>Funding Gaps Jeopardize Government Operations (PAD-81-31, Mar. 3, 1981) and Updated Information Regarding Funding Gaps and Continuing Resolutions (PAD-83-13, Dec. 17, 1982).

Over a 21-year period (fiscal years 1962-82) HUD appropriations bills were enacted late 19 times. Of those times, 1 bill was late less than 1 month, 10 were late 1-3 months, and 8 were late 3-6 months. HUD operated on continuing resolutions for fiscal year 1982 until its appropriation was passed on December 23, 1981. The 1983 HUD and Independent Agencies Appropriation Act, minus assisted housing funds was passed on time. A budget analyst in the Housing Budget Division told us that operating under a continuing resolution creates an unstable situation because planning for the level of budget execution funding cannot be done adequately. This is due to the unknown level of program funding that might be forthcoming in regular appropriations.

In past years, late funding has contributed to the Department's not issuing an operating plan until well into the fiscal year. The effect of not having timely guidance, discussed earlier, has also been emphasized in a 1982 HUD regional office report:

"As a result (of late operating plan issuance), several months are lost, during which limited progress is made on goal accomplishment, staff time and travel funds are frequently expended on items which turn out to be a low priority, and a drift develops in the absence of a clear statement of objectives."

This late funding not only hampers agency managers in setting priorities and allocating resources but also affects the people HUD serves. For example, delayed funding prevents many of the Nation's 2,700 public housing authorities from operating efficiently. These authorities received about \$1.2 billion in operating subsidies in fiscal year 1983 to pay for utilities, maintenance, and security for the over 1 million families they house. The uncertainty surrounding delayed funding prevents authorities from engaging in meaningful budget planning which increases the risk of poor security and further deterioration of buildings and equipment.

#### Delayed reauthorization

A delay in an authorizing bill becoming law can create a major problem for a federal program: no authorization for funding. This happened to HUD at the beginning of fiscal year 1983 when the annual authorization for assisted housing programs had not passed. The authorization never passed throughout the entire year. Housing programs were funded (and in effect authorized) in the Second Continuing Resolution (Public Law 97-377) on December 21, 1982. Ironically, the HUD and Independent Agencies Appropriations Bill was the only one to be enacted (minus funds for assisted housing) before the fiscal year started.

Between September 30, 1982 and December 21, 1982, and in the absence of any carryover obligational authority from prior years, the subsidized housing programs would have had to stop operating.

The programs had carryover balances, but according to the Housing Budget Office, the first few weeks of fiscal year 1983 were spent determining the legalities and technical problems before any obligations could be made.

Delayed authorizations and funding hinders effective planning. This creates uncertainty for program managers and hardships among program recipients. Extensive planning and analysis of future staff needs and skills and alternative program structures require a higher degree of program certainty than the current authorization process provides. For program recipients, such as public housing authorities, this funding uncertainty can negate planning. Their dependency on HUD for basic operating expenses makes them especially vulnerable to funding uncertainties.

### Impact on long-range program planning

The need for long-range program planning is evidenced by the nature of HUD's role and programs. For example, HUD insures thousands of single-family dwellings and multifamily projects under a variety of programs. The long-term implications for these and other programs can be dramatic:

- HUD's direct subsidy programs such as Section 8 and Public Housing, once thought to be economical and efficient, are now considered by many to be expensive and inefficient. They are slated to be eventually replaced by a housing voucher-like program. This has significant long-term impacts. Intended to serve more families at lower costs, vouchers may or may not be successful depending on the nature of the rental housing supply now and in the future. Some experts argue that, in the long run, a voucher program is more expensive than construction subsidy programs because vouchers do not directly create new housing.
- HUD's grants and loans to communities for revitalizing urban areas can also have a dramatic, long-term effect on neighborhoods and their inhabitants. Grants to rehabilitate rental housing can displace families, causing hardship and other unintended side effects, the full extent of which can only be determined by carefully studying the expected impact in the short and long runs.
- HUD has a large number of mortgages which could be assigned to HUD in the near future. This problem and its related impact on budget disclosure is discussed further on page 72.

Also, there is a direct link between the need for long-range planning and the development of financial management information systems. In chapter 5, we show that systems were developed without adequate consideration of planned program changes. For example, HUD has been several years developing a system for

automating the process used to control single-family loan insurance underwriting. However, program changes continue to affect the underwriting process. Appraisals are now performed by private appraisers rather than made by HUD employees, and other functions are beginning to be performed by private mortgagees (referred to as direct endorsement). These program changes necessitate revisions to the system being developed.

Although managers with whom we spoke cited the absence of, yet need for, longer range planning in HUD, factors relating to the short-term budget cycle posed barriers to long-range planning. Managers felt that it was difficult to engage in meaningful long-range planning given the program and staffing uncertainties arising from HUD's annual budget deliberations. As a result, long-range program planning is neither well supported by higher levels of management nor made part of the management process.

#### Policy development influenced by budget timing

Timing of the budget process can influence policy development. Meeting budget deadlines has resulted in incomplete or unacceptable policy proposals. This is illustrated by the following example.

In the spring of 1981, the Secretary directed the Office of Policy Development and Research to develop an alternative to the Section 8 Housing Assistance Program. As the alternative program approach and design evolved, the fiscal year 1983 budget and legislative process had already begun. Formal and informal meetings took place during the spring and summer of 1981 between representatives of HUD's Office of Housing, and Office of Policy Development and Research. As the September 15 budget and legislative OMB submission deadline approached, however, HUD staff still found program design issues unresolved. A meeting of principal voucher development staff was held on August 20, 1981, to try to resolve these issues. In addition to the design issues, the voucher proposal also included several legislative provisions that would not be acceptable, according to a deputy assistant secretary, to key members of Congress or committee staff members. Time for further discussion and deliberation had run out. A senior official within the Office of the Assistant Secretary for Legislation, who participated in the legislative writing of the voucher proposal, told us that HUD took the risk of submitting the proposal to OMB and the Congress, aware that the proposal was not the Department's best possible product.

The voucher proposal, included in the 1983 budget, was not approved by the Congress for fiscal year 1983. Neither we nor Department officials can say with certainty that the major reason the proposal was not passed lies with the lack of complete information. What is certain is that material was forwarded to

OMB and the Congress, recognizing that the shortcomings existed, in order to meet budgetary deadlines.

Further, budgetary timing has been cited by top HUD officials as a reason for less than effective coordination and oversight. For example, the Assistant Secretary for Fair Housing and Equal Opportunity told us that his office did not have the opportunity to review all of the fiscal year 1983 legislative proposals. And although his office received all of the Department's fiscal year 1984 legislative proposals for concurrence there was inadequate time for proper study. A Fair Housing Director responsible for proposal reviews said that he did not receive all of the Department's legislative proposals for concurrence until September 13. Two days later, on September 15, they had to be returned to the Office of General Counsel in order to meet the OMB proposal deadline. The Director stated that the legislative proposals received on September 13 were not adequately reviewed by Fair Housing during the fiscal year 1984 budget cycle.

#### Need for multi-year budgeting approach

The negative impact of budget and legislative processes cannot be overlooked in assessing management effectiveness. From an agency's perspective, these problems are largely unavoidable and can be solved only by changes to the external processes.

These changes may be slow in coming but their need has been recognized as evidenced by recent budget reform debate. Generally what may help to solve problems like those affecting HUD's management is a multi-year budget.<sup>6</sup> We have previously reported to the Congress that to achieve long-term budget control<sup>7</sup> government-wide, high priority should be attached to better multi-year budget planning. Some of the actions we have previously proposed for improving multi-year budget planning include the following:

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<sup>6</sup>Multi-year budgeting includes a range of procedures and techniques to help the Congress and the executive branch make decisions on a more appropriate time span than the annual budget cycle. Comprehensive multi-year budgeting occurs when all funds are requested, authorized, and appropriated for several years at a time. In practice, less comprehensive multi-year budgeting methods are more widely used. Actuarial analysis for retirement programs, and military weapons development are two examples of well-established, long-range planning techniques within the executive branch.

<sup>7</sup>Federal Budget Concepts and Procedures Can Be Further Strengthened (PAD-81-36, Mar. 3, 1981).

- Multi-year legislative authorizations, instead of 1-year or no-year authorizations. Such authorizations could provide the framework and discipline for more congressional and agency multi-year budget planning.
- Clearer statements of policy and program objectives in authorizing legislation. Such statements can facilitate multi-year budget planning by making it easier for agency officials to decide on the appropriate program mechanisms, timetable for actions, measure of accomplishment, and realistic budget objectives.
- Extending the time horizon of information in the budget to facilitate better long-range planning. Information on relevant national and global trends and issues extending 10, 20, or more years into the future should be included for the budget's major categories ("national needs" and "functions").

In the recent past there have been numerous budget reform proposals, including biennial budgeting, which were aimed at providing a longer term budgeting focus. Biennial budgeting would provide for a budget which would be debated and passed every other year and cover a 2-year period. This biennial budgeting system has several attributes that the present system lacks, primarily more time for analysis and decisionmaking. During the 98th Congress four biennial bills have been introduced.

Biennial budgeting proposals are usually discussed in terms of improving the congressional budgetary process. We believe the Department's problems would provide an excellent case study of both the advantages and disadvantages that biennial budgeting might provide federal agencies.

#### ANALYTICAL BASE SUPPORTS THE BUDGET PROCESS

The "analytical base" of the budget is the complex array of quantitative information needed to support the Department's budget development and execution monitoring. The three major sources of this information are

- the financial management systems that provide the standard measures of performance,
- the resource management systems and processes used to estimate workloads and work force requirements, and
- the program evaluation systems that measure the effectiveness with which program objectives are accomplished.

By improving each of these resources, HUD can better support its budget process.



HUD management is moving to improve the consistency and accuracy of this analytical data by standardizing and upgrading its accounting systems. Further, although HUD's financial management systems have limitations, the account structure is generally compatible with the budget structure and can capture data for budget line items.

Also, in the last quarter of fiscal year 1981, a study was conducted at the request of the Assistant Secretary for Administration to assess major components of the HUD management system, including the work measurement system. To remedy problems uncovered by the study, management decided to replace the system which was used to justify staffing requirements with a new system.

Another example of positive management action is HUD's recognition of the need for improved coordination and greater use of program evaluation in the Department's decisionmaking process. The Secretary has called for greater central direction and increased coordination.

One of the most important uses of the analytical base data is in monitoring and analyzing the execution of programs and budgets, i.e., performing program-budget execution monitoring. This involves monitoring, usually monthly, of program and financial data and comparing this data with budget and operational plans. At HUD, we found that execution monitoring was limited. This occurred because HUD lacked a systematic and comprehensive way to monitor and analyze its program and funding activities. There was no centralized function at the departmental level for assessing program performance and reporting overall trends and problems. We found that the budget offices did only gross monitoring of outlays, obligations, etc., largely for overall budgetary control purposes. Staffs of the various program offices monitored their individual areas on a more detailed basis but did very little formal reporting to other levels of management. Basically the Department had a complex but fragmented information system with little consolidation of data.

Managers at all levels need the results of execution monitoring in order to make informed decisions. Information from this monitoring provides feedback to management by

- comparing program performance against plans through variance analysis,
- providing input to the planning process for making plan adjustments, and
- feeding into budget development for more accurate determination of resource needs.

**BEST DOCUMENT AVAILABLE**

## Financial management systems' limitations

HUD's financial management information systems can be improved to better support budget execution monitoring and keep pace with management needs. Preparation of budget data requires extensive manual effort, and budget reports on program activities cannot be compared to planned accomplishments for several weeks after the reporting period.

HUD's 58 appropriation accounts are controlled by a wide range of accounting systems. At the time of our review these systems included

- the Federal Housing Administration fund system, which had three major automated segments and 15 subsystems under development or planned;
- three major automated systems which included some manual aspects and collected data on 30 appropriation accounts; and
- 27 manual systems which collected data on the other appropriation accounts.

These automated and manual systems and dispersed accounting activities make it difficult for HUD to compile timely and accurate budgetary data. In addition to having these 4 automated and 27 manual systems, budget support is dispersed among HUD activities. HUD accounting is performed by 10 regional accounting divisions and headquarters.

Timely and accurate data is needed not only in preparing HUD's budget submissions but also for comparing actual with planned accomplishments during the fiscal year. For example, HUD must periodically determine the status of available funds for its various programs.

In addition, HUD's dispersed and manual systems make it difficult to rapidly respond to special data needs and requests. There are many ways to structure budget data, and HUD often must respond to special congressional requests for such data. For example, although modern data processing techniques would permit the available data to be reformatted to meet special requests, the current manual compilation is time-consuming. We were advised by HUD accounting personnel that complying with special budget information requests normally requires several weeks after the end of the reporting period. This compilation can consist of obtaining literally hundreds of pieces of data from the 11 accounting centers because 58 program appropriations can be involved. Appendix X illustrates the process for developing budgetary data for special requests.

An example of the work involved in providing special data for budget requests follows. HUD received a request in July 1981 from a congressional committee for budgetary information concerning unobligated balances from prior years. This information could not be provided promptly as HUD's mechanized accounting systems did not maintain information on these accounts. Thus, in order to respond it was necessary for HUD staff to review manual records covering a 5-year period for 13 accounts.

As discussed further in chapter 5, there is limited integration and automated interface between HUD's financial management information systems. For example, the budget process is not fully integrated with accounting for salaries and expenses at HUD. Although these costs exceed \$50.0 million annually, HUD does not allocate these costs to program appropriation accounts. Instead, two nonintegrated systems are used for employee time reporting at HUD:

- The payroll system accumulates cost data based on the organizational structure.
- The employee time reporting system accumulates data based on workload items.

Consolidation of these systems in a way which would identify appropriation program accounts would provide HUD a basis for allocating overhead costs for all programs. Currently, only costs of Federal Housing Administration programs are allocated, and the full costs of operating many HUD programs are not readily available.

Accuracy or unavailability of data is a problem with HUD's financial management information systems that affects the budget process. Managers in HUD, the Office of Management and Budget, and congressional committee staffs all cited the inaccuracy of accounting data as a longstanding problem. For example, a continuing concern by Office of Management and Budget personnel was that HUD program and accounting personnel provided different data on debt collection efforts.

#### Resource management system limitations

HUD systems and processes used in developing workload estimates and justifying work force needs require improvement to support budget planning and execution. In the past, data used as support for budget preparation and execution monitoring were not accurate or reliable enough because of

- problems with program and management data systems used in developing workload projections and

--work measurement standards and work processes that were not reviewed to keep pace with changing programs and conditions.

Management was aware of these resource management system deficiencies. In the last quarter of fiscal year 1981, a study was conducted at the request of the Assistant Secretary for Administration to assess major components of the HUD management system, including the work measurement system. Also, HUD's Inspector General issued a report on the use of work standards by the Office of Finance and Accounting in April 1982. The report pointed out a number of problem areas in the Office's work measurement system.

To remedy these problems, management decided to replace the system which was used to justify staffing requirements with a new system. This new system, part of the management plan process described earlier, will use aggregate productivity ratios relating a given output to the amount of staff time required to accomplish the output. Because the new system is under development, it is too early to tell if it will provide the information needed to effectively support the HUD budget process.

#### Improved coordination of program evaluation needed

HUD's management has recognized the need for improved coordination and greater use of program evaluation in the Department's decisionmaking process. However, the Secretary's call for greater central direction and increased coordination has encountered delays in implementation. As a result, program evaluation has not fully supported the budget process and other management functions.

The Office of Management and Budget in Circular A-117 defines program evaluation as

"...a formal assessment, through objective measurements and systematic analyses, of the manner and extent to which federal programs (or their components) achieve their objectives or produce other significant effects, used to assist management and policy decisionmaking."

Program evaluation at HUD functions in several contexts, including in a broad sense the GAO and IG, as well as the more obvious program office evaluation functions and the Office of Policy Development and Research. Here we focus on the efforts of the latter two groups which are primarily concerned with program impact evaluation, while chapter 4 addresses other evaluation efforts.

#### Program evaluation responsibilities and functions

In April 1981, the Secretary issued a memorandum detailing responsibility for program research and demonstrations,

evaluation, technical assistance, and urban policy. The Secretary called for a more coordinated function supported by a strong central evaluation unit and has issued formal guidance for managing particular functions. The responsibility for all program evaluations was assigned to the Assistant Secretary for Policy Development and Research (PD&R). The responsibility for performance (operations) evaluations remained with the other assistant secretaries and regional administrators in conjunction with the Deputy Under Secretary for Field Coordination.

The Secretary recognized that, with severely limited resources for both programs and evaluation of programs, evaluations become critically important as vehicles for improved decisionmaking. Because of the diversity in needs, resources, and management style, we think it is unlikely that there is a generalized best organizational form for evaluation at the federal department level. In this case, however, the Secretary has clearly stated his conception of the proper organization. The issue is not whether this is the best conception; the issue is whether it has been implemented--whether the Secretary's intent has been executed.

The Secretarial guidance recognizes that evaluation should not operate at only one point in the organization, but that neither should the several units function independently. It calls for a central evaluation office that will have total responsibility for impact evaluations and will perform such important functions as allocating some evaluation resources (e.g., contract funding), coordinating assignments, reviewing and controlling quality, providing technical assistance, and supporting departmental policy. And it reserves operational or performance evaluation to the offices responsible for service delivery. The guidance did not extend to operational issues within the evaluation function such as how to specify program objectives, design studies, implement coordination, or address the need for both short-term and long-term information requirements.

Historically, the program evaluation effort in the Office of the Assistant Secretary for PD&R has been the flagship evaluation effort within HUD. It has been only one of several important functions within that Office. For the several years prior to the 1983 budget presentation, program evaluation was identified as one of PD&R's "major program activities." Under the current PD&R administration, program evaluation no longer operates as an independent, clearly defined function. The Assistant Secretary has chosen not to differentiate organizationally among the concepts of research, policy analysis, and evaluation. Consequently, there is no formal evaluation structure and no person or unit is identified with PD&R evaluation effort. Instead, program evaluation is conducted as it is needed within PD&R's Offices of Policy Development, Economic Affairs, Housing Studies, and Urban and Community Studies. PD&R management believes that this structure will be more supportive of program offices and policy-oriented research.

The only other major program evaluation effort we found at HUD (aside from OIG) is in the Office of Program Analysis and Evaluation, under the Assistant Secretary for Community Planning and Development. The CPD group has the critical mass of staff, the technical expertise, and the evaluation-oriented management that makes a program evaluation group in fact, as well as in name. The Office has redirected its evaluation program to be responsive to the programs and policies of the administration and to service a higher level of ad hoc requests for policy analysis. The Office's staff has decreased from 50 staff years in fiscal 1980 to 19 in fiscal 1983.

The Office has moved away from what is generally accepted as the program evaluation process. In 1980 almost all studies were performed in less than 6 months, but the emphasis now is on 1- or 2-month analyses. A positive development, encouraged by major changes in CPD-administered programs and new administration policy initiatives, such as enterprise zones, is the development and implementation of the concept of "anticipatory evaluation." The essence of anticipatory evaluation is to identify the type of information that can be available at discrete, near-term intervals. Then it uses that material, as well as more standard evaluative information, as a proxy to measure program effectiveness and to provide evaluative results to HUD and congressional decision-makers within time constraints imposed by the budget process. The enterprise zone evaluation, for example, will provide an initial report within 6 months after the first zones are designated and a second report prior to the reauthorization hearings.

The program evaluation office under the Assistant Secretary for Housing demonstrates how a program evaluation office can lose its program evaluation identity as it becomes a general issues analysis group in response to immediate management needs. Responses to our questionnaire<sup>8</sup> and statements made in interviews reported that the office is a quick response study office performing policy and program analyses in support of legislative and budget initiatives. In 1980, the unit reported that half of its staff time was used to perform program evaluations, but in 1982, it reported that only 5 percent of its staff time was so used. The director of the evaluation office reported that no program evaluations were started in fiscal year 1982, but that his staff of about eight professionals do about 50 studies a year. He categorized them as odd job analyses and special studies.

The smallest of the program evaluation offices is in the Office of Fair Housing and Equal Opportunity. It is a relatively new office having been established in 1980. It has had several directors and still seems to be developing its mission and identity. It has only six professional staff and limited access

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<sup>8</sup>Use of a questionnaire to obtain factual and comparative data is further explained in appendix VI.

to contract funds. With this limited resource base, the Office has the difficult task of trying to produce program evaluations while responding to ad hoc demands made by PHEO management.

### Impact of Secretarial direction

Although PD&R has reorganized its internal office structure to reflect its revisions in program activities and research goals, there is little evidence to indicate that the Secretary's guidance with respect to coordination and oversight between PD&R and program area evaluation offices has been effectively implemented. And several issues have been identified that may inhibit improvements in this area. For one, PD&R does not appear to be organized to coordinate evaluation as a department-wide function. Within PD&R, evaluation no longer exists as an independent discipline. While this may be an advantageous structure for PD&R's internal work, it diffuses responsibility for program evaluation coordination with the program areas. Consequently, there is no single focus for evaluation from which all the program offices might draw support. As established, program area evaluation managers could meet with their PD&R counterparts for support and consultation, but these managers have stated that such meetings are unusual.

A second issue concerns the types of program evaluations being performed. With PD&R redirecting its efforts to shorter, process-oriented evaluations, its work may appear to be more like that done in Housing or Community Planning and Development. We think that a lack of differentiation in work among evaluation staffs could raise problems.

Third, there has been a general lack of followup to the Secretary's guidance. One would have expected the Secretary's memorandum to be followed by one from the Assistant Secretary, PD&R. The latter could have developed the ideas and either presented a plan for implementing the coordination and cooperation that would be needed or called for a task force that would have developed the plan. No additional memoranda were issued. Program office evaluation staff stated that there has been very limited contact with PD&R. Formal reviews have not been started. Also, there is no comprehensive, periodic list of planned and ongoing evaluation activities for the Department as a whole. Prior to 1981 work plans had been requested by PD&R from the program offices. Since then, PD&R has not requested these plans.

### Program evaluation can be more effective

The issue of timeliness is often a point of conflict between program managers and evaluators. The reason is that evaluators tend to operate in a research mode while their management clients operate under a different set of constraints. As a discipline, evaluation can take its share of criticism, but its nature is fundamentally different from the rigidly timed budget and

decisionmaking process it serves. In evaluation, timing has been a secondary consideration. The quality of the design, the data collection, and the analysis are paramount. While the amount of resources available to perform evaluation may sometimes control the timing, there are also situations where information simply cannot be developed except with the passage of time.

On the other hand, the budget process needs timely and appropriate analytic information to assist decisionmakers in making resource allocations and other policy judgments. This information can be supplied by evaluation. That this does not occur is at least as much a fault of the total management system design as it is of the evaluation function. The federal budget process is a calendar-driven sequence, cycling yearly, needing information at certain times, and allowing for only a minimal slippage if the information is to be used in the decision process.

This is not to say that evaluation cannot be designed to feed effectively into budgeting. For example, evaluation data requirements could be built into legislation or into plans for implementing a program as is being done with the enterprise zone evaluation. This provides a good opportunity to join efforts of policy staff, budget staff, and evaluators, each group identifying the needs of its respective area. Recent GAO testimony<sup>9</sup> on proposed revisions to the Community Development Block Grant Program, in fact, suggested that if uniform, reliable evaluative information is to be available it may be necessary for the Congress to legislate the information requirements to which state and local units will respond.

In the development and implementation of the "anticipatory evaluation" concept and in the general trend to short-term studies, we found evidence of efforts to link evaluation to the management decisionmaking process and to make evaluation timely and responsive. Other evidence is less favorable. HUD has eliminated program evaluation from the budget as a major program activity. It has eliminated the Division of Evaluation in PD&R and it has largely turned away from long-term studies. HUD will find that it is very difficult to retain the specialized strengths of program evaluation and gain the broad focus of an amalgam of research methods. Program evaluation at HUD is experiencing a reaction from a period which was recognized as unresponsive and out of touch. It is too early to tell if the needed adjustments will be made without compromising the integrity of the

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<sup>9</sup>Statement of Harry S. Havens, Assistant Comptroller General for Program Evaluation, before the Subcommittee on Housing and Community Development, Committee on Banking, Finance and Urban Affairs, United States House of Representatives, on General Accounting Office Views on Proposed Revisions to the Regulations Governing the Community Development Block Grant Program, December 7, 1982.



Department's program evaluation efforts. It is clear that the Secretary has called for program evaluation to play a critical role in decisionmaking and it is under such conditions that the opportunity exists for evaluation to contribute to rational decisionmaking. Major elements (coordination, oversight, integrated planning) of that process, however, have not substantially come into play, and until they do, program evaluation cannot be expected to be fully effective.

**BUDGET JUSTIFICATION AND PRACTICES  
CAN BE EXPANDED AND STRENGTHENED TO  
PROVIDE FULL BUDGETARY DISCLOSURE  
AND ENHANCE CONGRESSIONAL CONTROL**

Congressional control over the budget depends heavily upon a full and accurate reporting of program funding activities and budget amounts. Without complete budget information, the Congress cannot adequately compare programs, set priorities, and exercise fiscal control. Because of the change in the very nature of federal budgeting and the current fiscal situation, closer scrutiny than ever must be given to every aspect of the budget affecting this control. In light of these considerations, HUD's budget justification material can better reflect the full impact and level of its financial activities, thus improving congressional understanding and control by

--reporting more accurately and completely on the controllable<sup>10</sup> and uncontrollable portions of the HUD budget and

--fully disclosing the economic consequences of HUD programs.

While both of these budgeting aspects generally apply to any federal program, the very size and nature of HUD's programs require special attention. The following examples illustrate the magnitude and complexity of HUD programs which make this control so important:

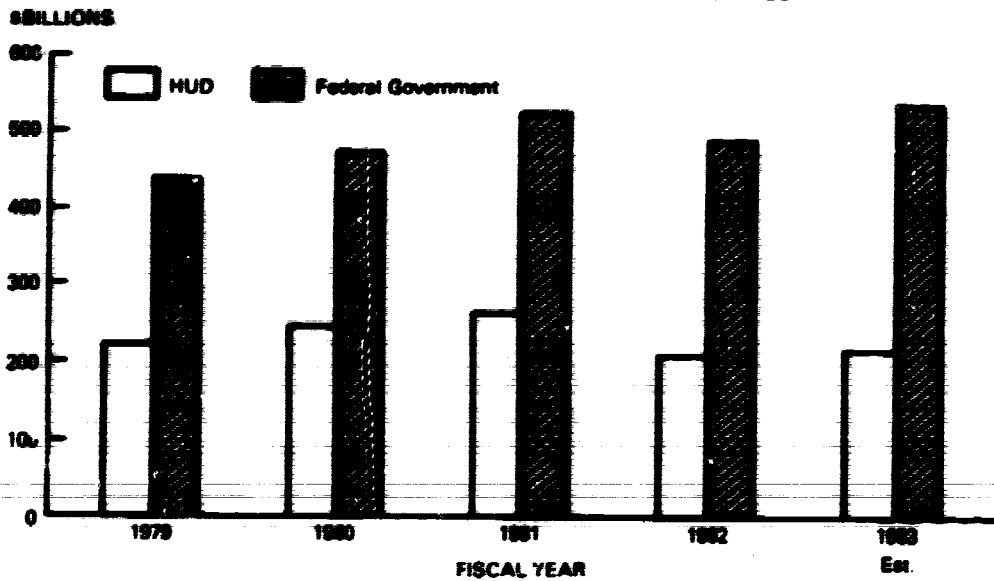
--HUD long-term contracts for assisted housing have created uncontrollable future outlays of nearly \$206 billion, a large percentage of the total for the federal government (see figure 3-4 on page 68).

--HUD has a contingent liability of \$280 billion in guaranteed and insured loans, over half the total for the federal government (see figure 3-5 on page 68).

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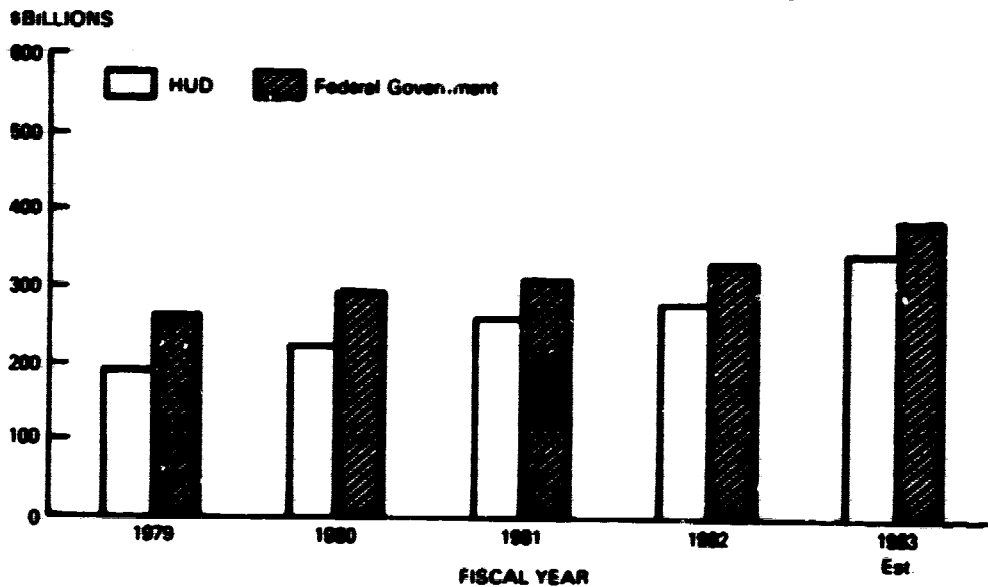
<sup>10</sup>The ability of the Congress and the President to increase and decrease budget outlays or budget authority in the year in question, generally the current or budget year. "Relatively uncontrollable" refers to spending that the federal government cannot increase or decrease without legislative changes.

**Figure 3-4**  
**OBLIGATED BALANCES**  
**HUD AND FEDERAL GOVERNMENT TOTALS**



Source: Budget of The United States Government, Fiscal Years 1981-1984

**Figure 3-5**  
**GUARANTEED LOANS<sup>1</sup>**  
**HUD AND FEDERAL GOVERNMENT TOTALS**



Sources: Budget of The United States Government, Appendix: Fiscal Years 1981-1984.  
 Special Analysis Budget of The United States Government, Fiscal Years  
 1981-1984

<sup>1</sup>Total primary guaranteed loans (excludes direct loans)

--HUD has (1) indefinite periods in which to obligate some funding and (2) permanent contract and borrowing authority which is reconstituted without congressional action.

--Tax advantages used in conjunction with HUD programs can result in federal revenue losses. HUD programs create tax preferences which create hidden costs by reducing the government's tax collections.

HUD obligations require special congressional oversight

One of the most salient features of HUD's budget that affects controllability is the large amount of commitments the federal government has entered through HUD programs which must be paid off in the future. Most of these long-term commitments are in the subsidized housing area. To promote housing development and subsidize low-income housing, legislation provides that HUD may enter into long-term rent subsidy contracts, many lasting 40 years. The Congress fully funds these contracts. Full funding, as applied here, means providing in appropriations the total amount of budget authority required to cover the entire commitment for the same year in which the commitment is entered. Even though budget authority has been provided, outlays for each year's cost over the life of the commitment must still be made from that year's Treasury receipts and borrowing. These future outlays, totaling nearly \$206 billion, represent the major uncontrollable part of HUD's budget.

The combined obligated balance of the Section 8 and Public Housing Programs in the subsidized housing account grew 460 percent from 1974 to 1981 (\$33.5 billion to \$188 billion). The growth of outlays in this area grew 447 percent during the same period (\$839 million to \$4.6 billion). HUD pointed this out in its fiscal year 1983 budget justification material and stated its concern about the growth. From fiscal year 1979 through fiscal year 1981, HUD was entering obligations in this same assisted housing program account at the following rates: 1979, \$32 billion; 1980, \$30.6 billion; 1981, \$28.8 billion. In 1982, the rate was reduced to \$12.8 billion.

Because much of HUD's budget is uncontrollable and because of its magnitude, HUD's obligated balance requires special scrutiny by HUD management and the Congress. The need for this scrutiny is underscored by the fact that many obligations are not firm and therefore may overstate the need for funding.<sup>11</sup> GAO and HUD's Inspector General have studied these problems.

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<sup>11</sup>The Urgent Supplemental Appropriation Act of 1982 (Public Law 97-216) limits HUD's ability to terminate the reservation of contract authority under certain circumstances.

### Some obligations questionable

As we reported to the Congress in an earlier study,<sup>12</sup> \$11 billion of HUD obligations over a 3-year period were not legally binding. This happened because HUD's criterion for obligations were based on reservation letters, i.e., letters of intent to obligate. Because the reservation letters did not represent commitments on firm projects ready for construction, many projects fell through, resulting in a deobligation of federal funds. These deobligations result in funds which become available for obligation again. Along with other authority carried over from prior years, these funds make up HUD's unobligated balance available.

The HUD Inspector General also reported on obligations which may not represent a need for funding. His March 1982 semi-annual report to the Congress showed that HUD had obligated over \$15 billion on 2,600 multifamily projects for 15 months or more without starting construction. The fact that construction did not start indicated that these projects may not have been ready for funding.<sup>13</sup>

Beginning with fiscal year 1983, and as a result of a Comptroller General's decision,<sup>14</sup> HUD changed its criterion for recording obligations. This should help ensure the soundness of HUD's obligation total in the future.

There still may be reason, however, to review some types of HUD obligations to determine if the total obligation needs funding. For example, in another report the IG found that in 10 public housing projects alone, over \$40 million of HUD's annual contributions contract reserve account balances of \$86 million should be considered for deobligation. The \$40 million represents an amount accumulated because of the public housing agencies' inability to perform at the level of activity estimated, overestimation of its funding needs, or assumptions on rents and tenant income changes not occurring. If these few projects are indicative of others, there could be large amounts of obligated balances available for deobligation.

Such obligations overstate budget estimates, program activity, and outlay estimates. Outlay estimates in particular receive close scrutiny because of their relationship to revenue

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<sup>12</sup>Unsupported Year-End Obligations Overstate the Progress of Assisted Housing (PSAD-80-41, Apr. 30, 1980).

<sup>13</sup>The IG study was done as a part of an interagency survey of unliquidated obligations for the President's Council on Integrity and Efficiency.

<sup>14</sup>HUD's Obligating No-year Contract Authority; B-197274; Feb. 16, 1982.

projections in deriving the budget deficit figure. In addition to outlay amounts, the questionable obligated amounts overstate program activity. Although the magnitude is uncertain, HUD's questionable obligations weaken the validity of budget estimates. Questionable obligations also affect on the total amount of budget resources available. If HUD has obligations which are not firm, then those obligations have committed budget authority unnecessarily. There is competition for budget authority, not only within HUD's budget, but within the total federal budget. The reported amounts of obligations (program activity) from year to year affect decisions about the allocation of budget authority. If obligations overstate need, they cause an unbalanced allocation.

These problems make it difficult to tell just how much outlay activity will occur and how much additional authority might be needed by the Department each year. Consequently, HUD management and the Congress lose a certain amount of control over these aspects of HUD's budget.

### Credit activities affect controllability

Another area affecting controllability is HUD's guaranteed loan activities.<sup>15</sup> These guarantees represent contingent liabilities and at the end of fiscal year 1982 amounted to about \$280 billion.

The uncontrollable aspect of these credit activities is the permanent borrowing authority HUD has to pay off these commitments if the borrower defaults. This results in an uncontrollable budgetary situation because the permanent authority allows HUD to draw down on Treasury funds to satisfy its obligations without any current action by the Congress.<sup>16</sup> For example, if current economic conditions persist and borrowers default on their guaranteed loans, HUD will be responsible for paying off the loans from the Treasury.

While these balances are identified in budget material, without thorough analysis of future conditions, problems, and implications of these large guaranteed balances, their impact is not readily apparent. However, certain program provisions should make HUD management and other decisionmakers increasingly aware of this potential impact. For example, certain mortgages, by law, can be assigned to HUD after 20 years. That is, the mortgagee can assign the uncollected balance of the mortgage to HUD in return for 10-year debentures bearing interest rates current at the time of assignment. In effect, this assignment makes HUD the mortgagee.

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<sup>15</sup>Includes insured loans.

<sup>16</sup>Other federal guarantees also operate this way.

The HUD budget does not fully disclose the potential impact on HUD of outlays for certain mortgages that could be assigned to HUD.<sup>17</sup> Should the lenders choose to assign all the approximately 7,000 multifamily mortgages currently covered by this program and assignable by the year 2003,<sup>18</sup> HUD could be required to pay out as much as \$6.9 billion over the next 30 years in debenture principal and interest.

There is a built-in incentive for many lenders to assign these mortgages because the debentures rate received is much higher than the mortgage interest rate being collected on the principal balance of the mortgage. In many cases the differences are considerable. In addition to the multifamily projects, there are also more than 400,000 single-family loans that may be converted to debentures under this program.

For example, in May 1981, HUD was assigned a \$2.7 million mortgage representing one project in this program. In return, HUD issued the lender a debenture for this amount. As a result, HUD will pay this lender a total of \$5.6 million over the next 10 years for interest and cash redemption of the debenture issued--a cost which would be offset by (1) proceeds from the sale of the mortgage by HUD and (2) collection of principal and interest by HUD prior to sale of the mortgage.

Both the Congress and OMB recognize the need to gain budgetary control over contingent liabilities. The President's budget for fiscal year 1981 contained, for the first time, a credit budget section with proposed limitations on guaranteed commitments. Various legislation has been introduced to establish a credit budget and controls.<sup>19</sup> This action and other proposals indicate the growing concern over controlling guaranteed loans.

#### Impact of practices on congressional control

Congressional control of the HUD budget is also affected by large unobligated balances available from year to year and by large amounts of obligational authority not controlled in the

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<sup>17</sup>HUD proposed in its 1983 housing authorization bill to (1) eliminate the buy-back provision authorized under Section 221(q)(4) of the National Housing Act and (2) vest Government National Mortgage Association with the authority for receiving, servicing, and disposing of assigned Section 221 mortgages.

<sup>18</sup>Our estimate is based on assumptions further described in our October 24, 1983 report (GAO/RCED-84-40).

<sup>19</sup>For example, in the 98th Congress, Senate bill S. 854, House bill H.R. 2076, and H.R. 2025 proposed establishing a credit budget.

appropriations process. Regarding unobligated balances, HUD has funding which carries forward and remains available because the relevant legislation stipulates that it shall remain available for obligation indefinitely (no-year funding), or for a specific number of years (multiple-year funding). Although such funding is specified by law, it complicates annual congressional budget control by constituting sources of expenditures beyond those provided by current congressional action (shown on figure 3-6 on page 74).

During fiscal years 1979-83, HUD estimated its unobligated balances ranged from \$10 billion to \$22.6 billion. (See figure 3-7 on page 75.) These amounts take on more significance when compared to new budget authority provided by the Congress as shown in figure 3-8. These amounts represent both carryovers from no-year funds and deobligations. (See figure 3-6 for the amounts of various types of HUD funding, no-year, 1-year, etc.). HUD calls these deobligations "recaptures" and, in fact, budgets on the basis of recaptures. In the fiscal year 1983 budget HUD estimated that recaptured amounts would be \$7.5 billion in 1982 and \$9.9 billion in 1983.

Recaptured funding gives departmental managers a great deal of flexibility. Not only do they have indefinite periods in which to obligate no-year funding, but they can reuse whatever is deobligated subject to statutory provisions. For example, as we found in our earlier study (PSAD-80-41) on unsupported year-end obligations, in fiscal year 1979 HUD had about \$7 billion in funds it could reobligate which were in excess of that indicated by its financial report to the Congress.

This flexibility comes from the no-year funding and is advantageous to the agency. From an agency's perspective, it is simpler to account for no-year as opposed to fixed-year funding. There are disadvantages for the Congress, however, in that it loses a degree of control over program levels year to year. This happens because agencies have funding they can use without annual action by the Congress. If the Congress factors HUD's unobligated amounts into total funding being considered, it is a positive step. It is positive in that it includes all funding available relative to program needs when federal resource decisions are being made. The fact remains, however, that the actual control over the obligation of these large amounts remains with HUD for an indefinite period of time. Thus, the Congress loses control over the timing of the spending. Clearly, the Congress could provide that such funding lapse, be rescinded, or it could decrease the new amount of funding for any particular year if it desired. In that these may be interpreted as explicit actions to decrease program funding, they may be politically difficult to carry out.

Another alternative already mentioned would be to change the no-year funding to annual or multiple-year funding. We generally support timed funding unless there are compelling reasons to provide the no-year type. In the case of HUD's programs funded in

Figure 3-6

## TYPE AND AMOUNT OF BUDGET AUTHORITY FOR SELECTED HUD MAJOR PROGRAMS (\$ in millions)

Program	Fiscal Year Budget Authority			Period of Availability of Funds
	1981	1982	1983	
Annual Contributions for Assisted Housing	\$29,040	\$18,427	\$10,194 <sup>2/</sup>	No year (available until expended)
Public Housing Operating Subsidies	971	141	1,350	One-year
		1,350		One-year which may be carried over through FY 1983 only
	100			Two-year
Assistance for Solar and Conservation Improvements	*	22	20	Two-year
Research and Technology	39	20	18	Two-year
Fair Housing Assistance	6	5	6	No-year Two-year
Community Development Block Grants	3,694	3,456	3,456	Three-year
Urban Development Action Grants	675	440	440	Three-year Four-year
Housing for the Elderly or Handicapped	797	745	277	Permanent borrowing authority
FHA Fund	412	252	134	Permanent borrowing authority

<sup>2/</sup>This represents recaptured authority (carryover not available). No new authority provided in 1983 HUD-Independent Agencies Appropriation Act.

\* Less than one million dollars.

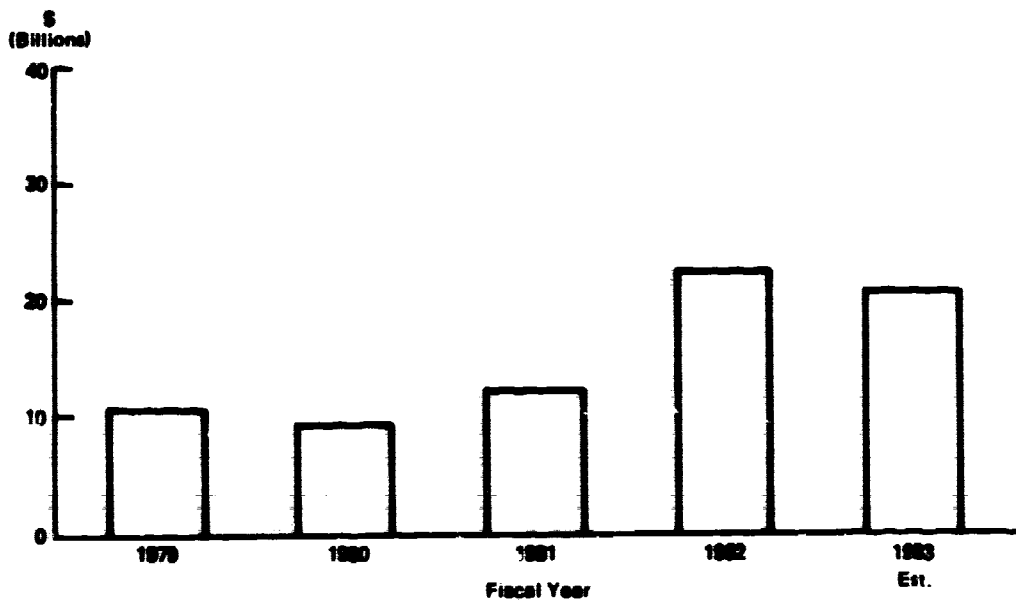
Source: HUD Budget Office.

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Figure 3-7

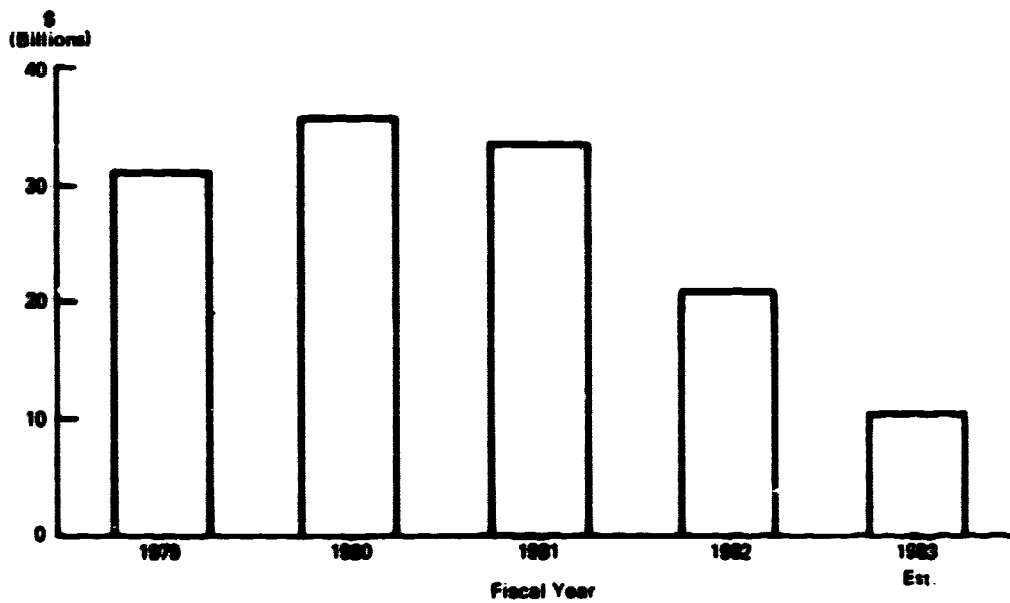
**HUD UNOBLIGATED BALANCES AVAILABLE**



Source: Fiscal Year 1983 OMB Budget Tape

Figure 3-8

**HUD BUDGET AUTHORITY**



Source: Budget of The United States Government, Fiscal Years 1981-1984

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its Annual Contribution for Assisted Housing appropriation, we see no programmatic reason to have no-year funding. Generally, no-year funding is needed for programs involving long-term contractual commitments when obligations are expected to be made from time to time over the life of the commitment. This is not the case with HUD's subsidized housing contracts. They are long-term commitments, but a binding contract for the full life of the commitment is signed at the outset. When this occurs, funds covering the full cost are obligated and no further obligations need be made for any particular contract. Therefore, HUD does not need an indefinite period of time (i.e., no-year funding) in which to make obligations against any year's appropriation.

Another example of a funding practice which limits congressional control is found in the assisted housing area. Permanent contract authority for this program provides a large amount of budget authority which can be obligated without congressional action. From 1937 until the enactment of the Congressional Budget Act of 1974, HUD was provided approximately \$2.9 billion of permanent contract authority to enter long-term commitments under this program. This authority was provided in authorization acts rather than appropriation acts and, therefore, not subject to the annual budget process. From 1937 to the enactment of the 1974 Act, the budget only reflected authority for annual payments due under the contracts and not the total commitment. The Congressional Budget Act of 1974 requires all new budget authority (including contract authority) to be subject to annual congressional budgetary control. However, as stipulated in that act, any permanent contract authority available prior to enactment of the Congressional Budget Act of 1974, including HUD's old permanent contract authority, may still be used without being subject to this annual control.

The Congress loses control because the contract authority which is generated by payment of obligations on contracts entered into prior to enactment of the Budget Act of 1974 automatically becomes available to HUD. While this is permitted for HUD's permanent authority, as well as for exempted permanent authority in other federal programs, the Assisted Housing Program has a feature which requires close scrutiny. It involves the way budget authority is calculated.

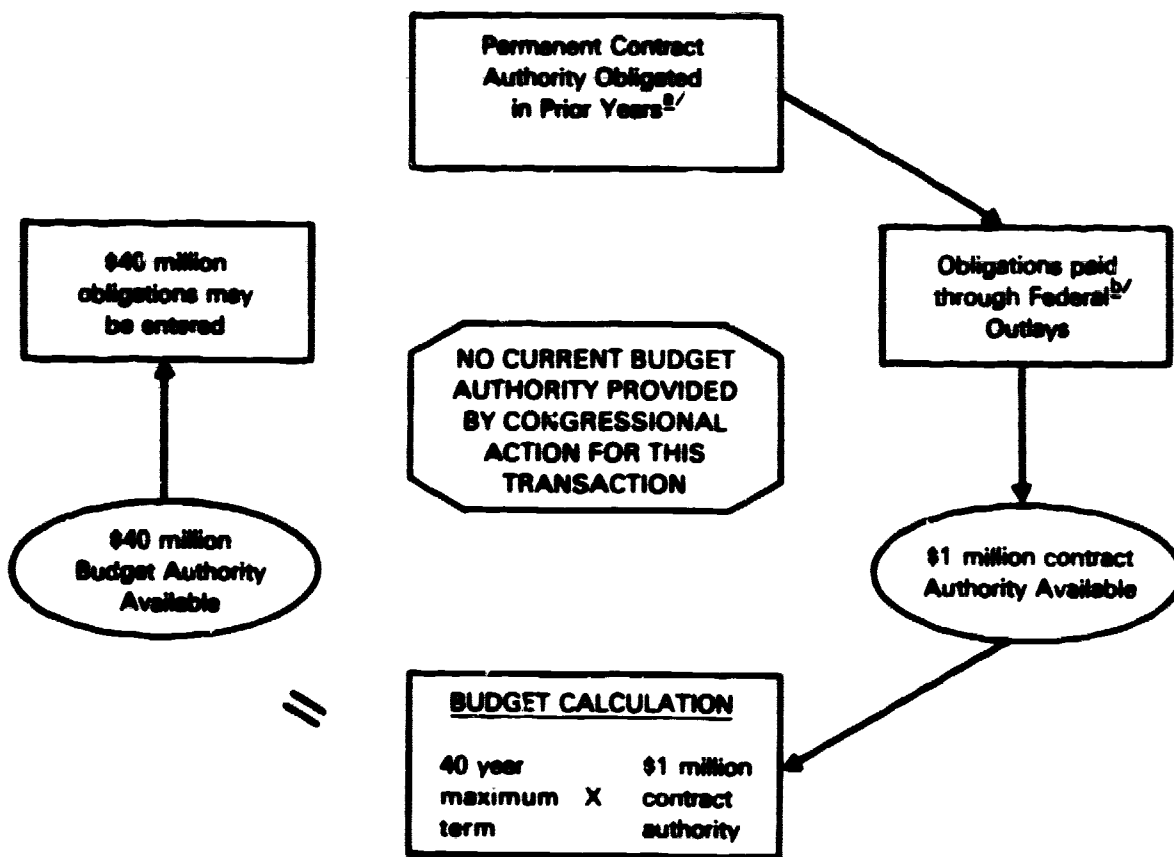
This calculation presents a problem of controllability. It happens because the contract authority, through a calculation by HUD and OMB, becomes the basis for a budget authority amount 40 times greater than the contract authority. This is done because the legislation providing this permanent contract authority permits HUD to enter into contracts for up to 40 years. Since budget authority is needed for the full contract term, the net effect of this practice is to generate budget authority of 40 times the contract authority.

The following illustration shows how this funding authority is created. (This is also depicted graphically in figure 3-9 on page 77.) HUD and OMB, using the contract authority that is

Figure 3-9

# PERMANENT CONTRACT AUTHORITY AND RESULTING BUDGET AUTHORITY IN ASSISTED HOUSING APPROPRIATIONS ACCOUNT

This illustration shows how total Budget Authority is calculated based on a hypothetical \$1 million in permanent contract authority (from the \$2.9 billion total authorized).



<sup>a/</sup>Obligations against this contract authority may be up to 40 times the amount.

<sup>b/</sup>Obligations paid by appropriations to liquidate contract authority which are not counted as Budget Authority.

generated by liquidation of contracts (for example, \$1 million) as a basis, multiplies that amount by 40, the maximum term of the contracts allowed by law, and records on apportionment forms a budget authority amount 40 times the contract authority (\$40 million). This \$40 million is then treated as budget authority available for obligation. This \$40 million is not provided by the Congress in the annual budget process, is not recorded as new budget authority, and does not appear in the published budget (the permanent contract authority amount--the \$1 million in the example--is included in carryover and recapture amounts). The available amount is not great now but will grow quickly as more and more original contracts begin to expire. HUD may obligate this amount without the normal budgetary control of the Congress. While budget convention allows this to happen, and while the Congress is aware of the contract authority becoming available, the flexibility involved is not clearly visible or easily understandable.

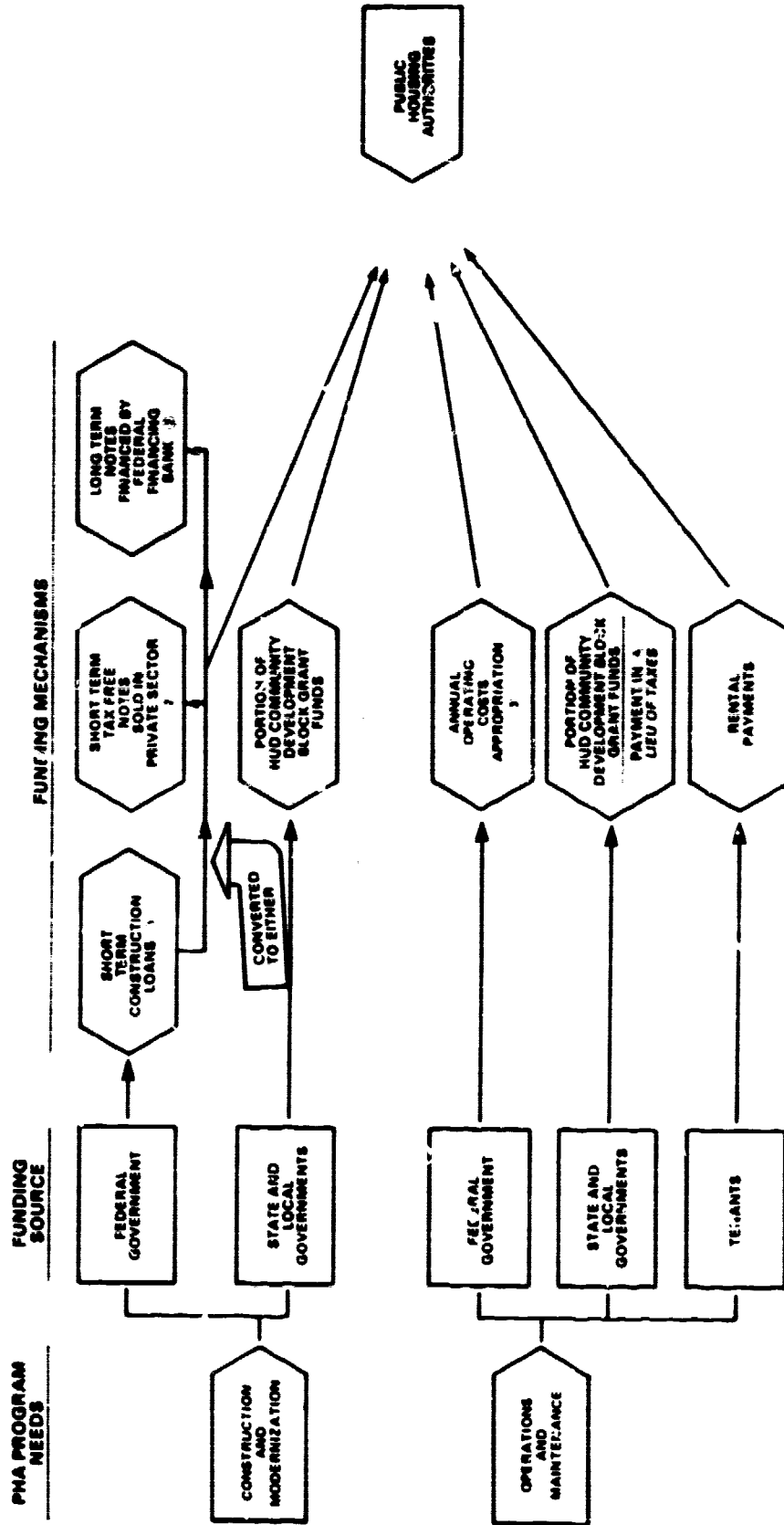
HUD budget does not  
disclose full program costs

The HUD budget does not fully disclose the impact of federal tax revenue losses resulting from HUD's programs. These revenue losses are the result of subsidies provided through the federal tax code to attract investment in the housing industry. In the rental housing area these subsidies include the use of accelerated depreciation, exclusion of interest on state and local housing authority (municipal) bonds, and fast write-off of rehabilitation expenditures on low-income rental housing. For example, owners and investors that participate in Section 8 Housing receive tax benefits from accelerated depreciation. These tax benefits reduce tax collections by the Treasury. Further, in the Public Housing Program, (see figure 3-10 on page 79) the local authorities issue debt instruments that are exempt from federal income taxes. While such securities have the effect of a direct program subsidy, this fact is not fully disclosed by HUD's budget.

The amount of government subsidy--through reduced tax revenues--resulting from the issuance of these tax-exempt notes is not disclosed in the HUD budget. Further, HUD will need assistance from the Treasury Department to determine the subsidy amount resulting from the outstanding tax-exempt notes. However, because the tax-exempt notes outstanding exceeded \$10 billion as of May 1982, the Congress should be fully informed of the revenue losses resulting from the HUD programs.

**Figure 3-10**

**FUNDING OVERVIEW  
OF  
PUBLIC HOUSING AUTHORITIES**



1. Funded by HUD through appropriation account 96 0139 housing payments  
 2. Funded by HUD through appropriation account 96s4096 low-term public housing programs  
 3. Funded by HUD through appropriation account 96 0183 payments for operation of low income housing programs  
 4. Local communities accept reduced payments in lieu of property taxes

SOURCE: GAO constructed

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## CONCLUSIONS

There is a direct link between budget formulation and planning and the analytical base supporting both. HUD's reliance on the budget process, however, as a mechanism for direction and control has not served as an effective proxy for systems needed which plan, develop policy and communicate secretarial expectations for the coming year. HUD is moving to a "management plan process". This process offers the opportunity to include multi-year Secretarial goals, realistic program objectives, and annual program priorities. The process can serve to establish the framework for budget formulation, annual operational guidance, and budget execution monitoring. Further, the plan can be a first line of communication to HUD's managers and employees and external interest groups, legislators, and other interested parties. Specifying objectives to achieve results can build evaluative data and information over time. Such an approach can strengthen the analytical base needed for making decisions on agency objectives, developing policy, presenting legislative and budgetary proposals, and monitoring results.

Short-term budget and legislative cycles can have a negative influence on HUD's management. The short-term focus serves as a disincentive for developing long-term program plans and complete policy proposals. Managers find it difficult to look beyond the annual budget and authorization cycle. Funding delays have exacerbated this situation by delaying operational guidance to the field as well as funding to program recipients. Since the budget cycle is outside the control of HUD management, changes to the federal budget process are needed. The many proposals for budget reform already recognize the need for improvements. HUD's problems serve to strengthen and reenforce the need for early resolution in order to manage federal programs more effectively. Biennial budgeting and multiple-year authorizations are two alternatives which could help move toward longer-term budgeting and planning.

Adequate congressional control over the budget depends heavily upon timely and accurate reporting of key program and budget amounts. However, we found weaknesses in the analytical base used to support budget development and execution monitoring. Financial management systems produced inaccurate, untimely, or incomplete data and were not synchronized with the budget process to provide needed cost information. Resource management data, such as workload forecasting, suffered from outdated systems and measurements. Further, evaluation activities within HUD were poorly coordinated. As a result, the credibility of both funding and staffing levels associated with programmatic change has been questioned.

Further, the HUD budget does not fully disclose the various budgetary and economic consequences of HUD's loans and loan guarantees. Reduced tax revenues and increased costs due to future loan defaults are two examples. As a result, the Congress has

limited information from which to make informed decisions on program budget alternatives or to exercise financial oversight and control.

### RECOMMENDATIONS TO THE CONGRESS

The Congress should require HUD to expand budget justifications to fully reflect all material aspects of uncontrollable costs and the budgetary and economic consequences of programs on future agency funding needs and on federal tax collections. The Congress could do this by:

- requiring HUD to submit a credit budget summarizing all credit activities; identifying situations which could materially affect HUD management and future funding (e.g., the mortgages which can be assigned to HUD after 20 years); and by laying out basic assumptions about economic conditions, mortgage interest rates, and loan default rates;
- requiring HUD to obtain Treasury's assistance and report expected losses of federal revenues on funding activities such as tax-exempt notes; and
- reassessing HUD's need for permanent contract authority for selected programs.

### RECOMMENDATIONS TO THE SECRETARY OF HOUSING AND URBAN DEVELOPMENT

Because of the need for major changes in the Department's planning and budgeting process, we are making both short- and long-range recommendations. The short-range recommendations can be implemented without extensive changes to current processes. The long-range recommendations should be implemented to resolve the defects which have caused the recurrence of systemic deficiencies.

For the short-range, HUD's Secretary should

- build on existing efforts to improve planning processes by developing a department-wide planning system. This system should establish accountability for department-wide planning and include
  - a multi-year Secretarial strategic plan,
  - policy development procedures,
  - program planning guidance,
  - operational plans, and
  - budget execution monitoring.

- Examine those obligations which may not be firm commitments and make appropriate deobligations in order to improve the credibility of HUD budget estimates and free unneeded funding.

For the long-range, HUD's Secretary should enhance the analytical base of the budget by

- continuing efforts to develop and improve financial management systems that integrate budgeting and accounting,<sup>20</sup>
- developing a system to obtain the information necessary to determine and allocate workforce requirements and assess productivity, and
- systematically incorporating program evaluation results in the management decisionmaking process.

#### MATTERS FOR CONSIDERATION BY THE CONGRESS

HUD provides the Congress with a useful case study when considering federal budget reform issues such as biennial budgeting and multiple-year authorizations. The short-term nature of the budget process in part hampers HUD's ability to plan its programs effectively, inhibits operational guidance, and leads to incomplete policy development. Frequent funding delays cause delays in program guidance, and disrupts agency operations.

#### AGENCY COMMENTS AND OUR EVALUATION

HUD agreed that its budgeting process should be more closely linked to other management processes. HUD stated it has taken steps to do this. HUD also stated that its budget process was never intended as a substitute for other planning.

HUD added that our report contained a fundamental confusion about the nature of planning. In this regard, HUD noted that in its view there are two distinguishable kinds of planning with which our report is concerned. The first is that of long-term, agreed-upon, and carefully articulated goals and objectives. HUD points to goals and objectives reported to the President and its ongoing attempts to refine these goals within the context of existing and proposed legislation. The second kind of planning HUD notes at issue is operational planning, including budget and management planning for allocating resources. HUD agrees with

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<sup>20</sup>This is consistent with our recommendations in chapter 5 regarding the need to develop more timely and accurate financial management data.



our report that the second kind of planning processes need to be brought together and that it has been working on developing a new management plan and resource allocation system.

During the course of our review HUD did provide to the President a mid-term review document which set forth HUD's objectives. The objectives, however, were not included in HUD's budget justifications nor linked to the "Secretarial Priorities" included in the operating plan provided to the field offices. As a result, the operating plan was underutilized by headquarters as part of a total system for measuring operational efficiency and holding subordinate units accountable.

HUD also disagreed with three examples we cite to demonstrate that the agency needs to improve its planning processes. In each example--the Vouchers Program, the Small Cities Block Grant Program, and Section 221 mortgages--HUD stated that planning has not been absent or inadequate, nor has HUD been remiss in notifying the Congress of impending problems. Regarding the use of housing vouchers, HUD also stated that the example included in this chapter was not consistent with the finding in Volume I. HUD stated that the "political process" has a larger impact here than our report acknowledges.

In response, our review showed that overall HUD does not have a formal, written procedure that imparts to agency managers uniform requirements for planning. While planning was performed in each of the above three cases, it was of dissimilar quality and scope. We attributed this to a lack of departmental planning requirements. In the case of housing vouchers, we have revised Volume I to show that HUD's proposals were the product of research, discussion, and study, including a comparison of alternative approaches to housing low- and moderate-income persons. However, HUD did not consider what will be required in the way of resources and staffing to effectively implement a vouchers program. Determining the likely impacts that new policy initiatives will have on organizational operations should be an integral part of a systematic planning process.

Similarly, we found program planning deficiencies in HUD's implementation of the Small Cities Program. While HUD's program staff told us that transferring this program to the states would significantly affect HUD's field workload and staffing needs, we could not find a HUD plan which dealt with these management issues. HUD stated in its comments that no formal, long-term planning existed for the transfer because HUD could not anticipate the exact legislative changes. We recognize it is generally not possible to predict precisely the legislative requirements which Congress will mandate; however, a primary purpose of planning is to allow an organization to anticipate future occurrences so that it can better deal with the eventual change. To address change only after it occurs presupposes a reactive or ad hoc approach to management.

Concerning Section 221 mortgages, HUD disagreed that it was either an example of a planning deficiency or of HUD not fully disclosing to the Congress the mortgages' potential contingent liability to the government. HUD added that it has continuously sought to bring this matter to congressional attention, and has succeeded in getting proposed legislation to provide for direct sale through GNMA of assigned mortgages as they come due.

In response we have revised our report to explicitly recognize that HUD has spearheaded the proposed legislation which would (1) eliminate the buy-back provision authorized under Section 221(g)(4) of the National Housing Act and (2) vest GNMA with the authority for receiving, servicing, and disposing of assigned Section 221 mortgages. However, the issue of full budgetary disclosure regarding the potential cost impact of the 221(g)(4) assignment provision remains. In this regard HUD, in its 1984 budget justification, "assumes the enactment of legislation which would eliminate the buy-back provision authorized under Section 221(g)(4)." However, the budget presentation is not clear regarding the potential long-term cost for (1) existing Section 221 mortgages for which legislation could not retrospectively apply and (2) future cost, should legislation not be enacted. Similarly, HUD has not developed an alternative management plan should legislation, which would turn responsibility for servicing and disposing of assigned Section 221 mortgages over to GNMA, not pass.

In summary, in discussing and reviewing planning systems and processes which HUD uses as a means for providing direction and control, we found two. The first, and primary, was the budget process. The second, discontinued during our review, was an operating plan which translated budget decisions into "Secretarial Priorities" with associated field office organizational responsibilities and resource commitments. Neither of these provided a systematic approach for (1) communicating agency-wide direction chosen by the Secretary, (2) developing policy alternatives, or (3) establishing program direction and feedback.

Our recommendations for improving HUD's planning process build on HUD's existing efforts to develop a "management plan," a plan which has as its key elements the aspects HUD suggests in its comments are confused in our report.

Concerning our recommendations to the Congress on increasing and enhancing the HUD budgetary information, HUD stated it did not believe that adding more material to budget justifications on the Department's long-term costs and contingent liabilities would help. HUD also stated that it accounts for and justifies all pre-1974 contract authority and that the Congress releases such authority in appropriation acts. HUD said it did not disagree with our recommendation to review its obligations. It stated, however, that our report overlooks restraints on the deobligation process. HUD deferred commenting on the budget process issues we suggest the Congress consider. HUD added, however, that it was

not alone in feeling constraints on operational planning because of budget deadlines.

Our recommendation that the Congress require certain additional material in HUD's justification is based on the perspective of overall federal budgetary control. For example, as we pointed out in figures 3-4 and 3-5, HUD's obligated balance is over 40 percent of the total federal balance; and HUD's guaranteed loan balance is well over 50 percent of the federal total. A relatively uncontrollable budget of HUD's magnitude limits the government's choices concerning distribution of funds. Further, as we discussed, HUD's budget does not fully disclose various budget and economic consequences of HUD's loans and loan guarantees. Reduced revenues and increased tax costs due to future loan defaults are two examples. The Congress needs such information to make informed budget decisions.

Regarding the issue of pre-1974 contract authority for assisted housing we recognize that the 1974 Budget Act excluded pre-1974 permanent contract authority and that HUD does include this authority (not the expanded amount) in the budget figures it sends to the Congress. However, because of the materiality of the expanded amount of pre-1974 authority and its effect on the controllability of HUD's total budget, we continue to believe that congressional budget analysts and decisionmakers should be provided more complete budget justifications reflecting the budgetary and economic implications of the assisted housing program.

HUD further stated that the Congress releases pre-1974 budget authority in appropriation acts. We disagree. Permanent contract authority provided before passage of the 1974 Budget Act is available without congressional action. While prior years' authority is considered in determining an agency's new budget authority needs, it is not necessary to include such funds in amounts appropriated. Therefore, it is not controlled in the annual budget process.

We have revised our report to recognize that the Congress restrained HUD's ability to terminate a reservation of contract authority. Nonetheless, obligations which are not firm commit budget authority unnecessarily. Since there is competition for budget authority, not only within HUD's budget but within the total federal budget, the requested amounts of obligations from year to year affect decisions about the allocation of budget authority. This underscores the continued need by HUD's management and the Congress to review obligations which are unlikely to result in funds being expended in the near future.

HUD disagreed with our position that accumulation of salaries and expenses in a single account limited the availability of information for budget and internal management purposes. HUD also stated that budget justifications are discussed in detail by organizational element and that efforts were underway to improve

systems, integrate budgeting and accounting, and develop information necessary to allocate staffing.

We have revised our report to recognize that funds for salaries and expenses are appropriated in a single account. Further, HUD's efforts to integrate its budget and accounting systems are positive. However, HUD's response does not address our point that it is desirable to fully disclose the costs of operating HUD programs. While the Congress has established a number of appropriation accounts to control HUD programs (see appendix X), HUD does not allocate the salaries and expenses account to most programs. Therefore, the full cost of operating these programs is not readily available. As both the Congress and HUD management must make decisions on the viability of programs, the inability to tie expenditures to specific areas or programs limits support of budget justifications and the information available for internal management.

## CHAPTER 4

### MANAGING PROGRAM DELIVERY

HUD continues to have problems in managing its housing and community development programs. Reviews, audits, and evaluations by the Inspector General, us, and others report many program deficiencies in delivery performance and monitoring of program participants. The causes of these deficiencies and reasons they persist are many and complex. We found weaknesses in several management processes such as setting priorities and providing program guidance to field staff, evaluating performance, monitoring participants, and developing staff capabilities. These weaknesses in turn are caused by a combination of faulty procedures and inadequate information systems and lack of managerial discipline. Continuing resource limitations and inherent program design problems, such as a lack of sanctions to help deter misuse of funds spent by grantees, handicap HUD's improvement efforts.

Improving program delivery requires a combination of short- and long-term actions. In the short term, HUD needs to

- improve the quality and distribution of program instructions by expanding the use of editors and field staff to clarify handbooks and establish accountability for overseeing improvements;
- improve monitoring of program participants by adopting recommendations already advanced by the Committee on Fraud, Waste, and Mismanagement;
- improve on-site reviews of performance by developing guidelines and standards; and
- improve responses to audits, reviews, and evaluations by developing a strategy for corrective action and establishing accountability for overseeing corrective action.

Upgrading the quality of HUD staff requires a long-term perspective. For this HUD needs to establish a staff development plan, integrate staff needs assessment with program plans, and develop a training needs assessment program.

#### PROGRAM DELIVERY IN HUD

Field offices deliver most HUD programs. They rely on headquarters for guidance, technical assistance, and general policy direction. Headquarters staff write regulations, prepare handbooks and other technical guidance, conduct on-site reviews of field offices, and track and analyze program progress. Program assistant secretaries are responsible for program accomplishment. Regional offices provide day-to-day management over the area offices. Program delivery functions vary but generally include

- processing and reviewing applications for grants, insurance, and other subsidies;
- monitoring program participants for adherence to program rules and regulations; and
- providing technical assistance to grantees to solve problems and improve effectiveness.

HUD's program emphasis recently has shifted away from development and growth to preservation and maintenance of existing housing and greater accountability for funds spent. Monitoring of program delivery received increased emphasis to control fraud, waste, and mismanagement.

Operational plans identify priorities for the coming year. The plans, which are more fully discussed in chapter 3, were intended to translate priorities into objectives and workload estimates and other work.<sup>1</sup> The operating plan linked budgeting and program operations and program assistant secretaries are responsible for the substance of the plan. Field managers are responsible for executing the plan.

Feedback to managers on program delivery includes the following:

- monthly field reports on achievement of operating plan priorities and workload progress;
- on-site performance reviews conducted by both headquarters and regional staff which measure field office compliance to program procedures;
- audits and reviews of program results by us, OIG, and other sources; and
- program evaluations by headquarters.

#### EFFECTIVENESS OF PROGRAM DIRECTION

HUD does not always provide effective guidance and direction to its program delivery staffs. Program instructions are sometimes poorly written, obsolete and not developed and distributed efficiently to end users. As a result, guidance is subject to misinterpretation and programs may not be operating as efficiently as possible, and management lacks a meaningful basis to measure program results and operational effectiveness. These shortcomings are due not only to flaws in the existing systems for providing guidance but also due to a lack of managerial support for

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<sup>1</sup>As discussed in chapter 3, there were problems in implementing this process and HUD is currently changing this system.

utilizing systems effectively. Competing demands for top managers' time have relegated improvement efforts to a lower priority. Also, because responsibility for controlling program priorities and instructions are fragmented throughout the agency, improvements have been slow.

### Program instructions can be improved

HUD's program guidance is sometimes poorly written and obsolete. Also, HUD is not effectively managing the process to translate policy and regulations into delivery instructions. This causes confusion among users regarding program requirements. The complexity of the process and lack of attention to handbook reform hamper HUD's efforts.

HUD officials have taken several steps to improve program instructions and the process to produce and distribute them. Such actions include:

- Improving the quality of handbook instructions. An effort by Housing to improve the clarity and organization of handbooks appears to be yielding positive results.
- Reducing the volume of handbooks. Housing, Community Planning and Development, and Administration are looking to reduce the volume of handbooks and notices. Dozens of obsolete handbooks have been cancelled, and an effort is being made to consolidate old handbooks and tighten rules on issuing new ones.
- Streamlining clearance and distribution of handbooks. The Issuance Management System, which governs preparing and distributing handbooks, is being replaced by a system designed to be more flexible and less time consuming. Deadlines for receiving comment by reviewing offices are being enforced and concurrence is being limited to offices with a substantive interest.

### Importance of well-written instructions

According to HUD, handbooks communicate instructions, guidance, and procedures for use by HUD staff and program participants. Therefore they should be a reliable, up-to-date source of information on programs and serve as the definitive guide for delivering programs. Many HUD handbooks meet these criteria. We found, however, that some handbooks are poorly written and obsolete.

An editor hired by the Office of Housing to improve the clarity of several handbooks provided us, at our request, examples of confusing and ambiguous instructions in HUD handbooks. For example:

- A certified appraiser was asked to read and reconcile apparent disagreements between several instructions but was not able to understand the text, yet appraisers are the intended readership of the instructions.
- The handbook referenced a form that no longer existed, the referenced appendix was the wrong number, and addresses were incorrect.
- The handbook told the reader that no specific measure of "cost estimating" was required, yet went on to give a lengthy example of how to estimate costs, giving the impression that the method described was required.

Another problem in handbooks is their organization. Matters of policy are imbedded in detailed procedures with bits of procedural direction scattered throughout unrelated sections. Poorly written handbooks are not confined to Housing. The Director of the Office of Finance and Accounting recently wrote that most of the Office's current handbooks "would not pass a 'plain English' test."

Many handbooks are obsolete. In December 1981, the Assistant Secretary for Housing sent a memo to all Housing staff expressing concern about outdated handbooks; he listed 26 with an "excessive" number of changes and stated that "many of these handbooks are in urgent need of revision." In 1982, Housing staff identified 89 handbooks for cancellation, covering programs no longer active or simply too out of date to be useful. As of September 3, 1982, negotiations with program offices led to five handbooks being cancelled--a small but important step forward. The Office of Finance and Accounting concluded in 1982 that of its 50 handbooks, 18 require substantial revision or consolidation, 9 are to be rescinded, 23 are "reasonably" current, and 5 new handbooks are required where procedures are not now formalized.

Our examination of current Housing handbooks also shows that major revisions are often needed. HUD's handbook policy "suggests" that for clarity and understanding, once a handbook is changed four to eight times, issuing offices should consider developing a revised handbook. Of the 250 active housing handbooks a January 1982 inventory showed over 30 handbooks with more than four changes. The current "Single-Family Property Disposition Handbook" was last consolidated in 1970 and has had over 100 subsequent changes. One Housing official said that it was "virtually impossible for field office staff to assemble an up-to-date text even if they had time to do so." In commenting on our draft report HJD noted that it has now revised the property disposition handbook. In this regard however, as of September 30, 1983, the handbook had not been issued to field office staff.

Despite a requirement that users comment on proposed handbooks, we found little evidence that this was happening. The



result is that while drafts take many months to prepare and clear through the agency, the primary user of handbooks--area office staff--have the least opportunity to comment. In the Philadelphia region, we found that area offices commented on less than 25 percent of the 100 draft rules, regulations, and handbooks sent by headquarters. The dilemma facing HUD is that while end users need the opportunity to comment on proposed handbooks as well as on other matters of interest, pressure to reduce the delays for clearance and review (discussed below) limit time for effective field input.

### Managing handbook issuance

HUD's process to produce program instructions is governed by its Unified Issuances System. HUD is expected to replace this system in 1983 with a new process called the HUD Directives System. Issuances include all types of directives and procedures including handbooks. The system provides guidance for preparing, clearing, and distributing handbooks.

Clearance procedures can be more efficient. The Assistant Secretary for CPD in early 1982 wrote that the process involves too many clearance levels, many of which have little or no need to review. A "non concurring office," even though unaffected by the issuance, can unreasonably hold up a document for months. The Assistant Secretary remarked that there is a uniform disregard for deadlines, apparently due to the low level of priority the receiving office sets when clearing another office's issuance. The low level of priority given deadlines is illustrated by the attitude of the Office of Housing toward nonhousing issuances. As of January 21, 1982, 12 of the 25 draft handbooks and regulations had remained uncleared for 12-15 months. Program officials frequently cite unreasonable non-concurrences as the main clearance issue and reason for long delays.

The distribution of handbooks is another problem area. An early 1982 analysis of the issuance distribution process by CPD officials attributed the distribution problem to "an antiquated, confused, highly decentralized, and elusive system...." Mailings were going to people who do not need them while needed material never reached its audience. Staff from the three area offices we visited also expressed similar concern with the timeliness of program guidance. An official in one area office stated that the office received an important handbook notice 6 months after publication.

The problem can be traced to the large number and lack of control over distribution lists. Each major office within HUD maintains its own distribution lists and no inventory of all lists exists. For example, CPD estimated as many as 400 internal and external lists of addresses are used to mail handbooks. Over 20 HUD-wide ADP systems were identified as having capability to generate mailing lists. Given these large numbers of uncontrolled distribution lists, CPD officials concluded that errors are nearly

certain to occur. Officials in the administrative office told us they have had some success in reducing the errors in distribution in the past year and pointed out that the cost of avoiding mailing duplications may exceed the benefit of a more refined distribution list. To avoid the greater problem of some staff not receiving needed information, some overlap may be necessary.

### Opportunities for improvements

Poorly written handbooks, clearance delays, and inadequate distribution prevent field offices and program participants from having clear, up-to-date instructions. Handbooks are the basic framework within which HUD programs are delivered and must accurately reflect the policy and expectations of program managers. To the extent these criteria are not being met due to poorly organized and out of date instructions, field staff are left to operate inconsistently or incorrectly. HUD recognizes these problems and is developing more clear, concise, and timely guidance on program delivery. Given HUD's recent success in cancelling some handbooks and revising others, potential for continued improvement is substantial so long as a strong management commitment is present. Clearance procedural reforms are also under review by HUD and to be successful will require a management commitment to reform.

### EVALUATING PROGRAM DELIVERY

HUD is not effectively evaluating program delivery performance or monitoring program results. On-site reviews of field offices are not well coordinated or conducted according to a consistent set of standards. Also, HUD is not effectively monitoring the performances of grantees, housing authorities, and other performers who deliver programs to assure compliance with rules, and regulations. Findings from past audits and reviews suggest that HUD has continuing problems in controlling program waste, fraud, and mismanagement. Further, deficiencies reported on various aspects of program delivery by us, OIG, and internal audits, reviews and evaluations are not addressed comprehensively. As a result, problems remain uncorrected and HUD is missing an opportunity to benefit from important feedback on program delivery. Figure 4-1 on page 93 shows the audits, reviews, and evaluations performed in part to evaluate program delivery activities at HUD.

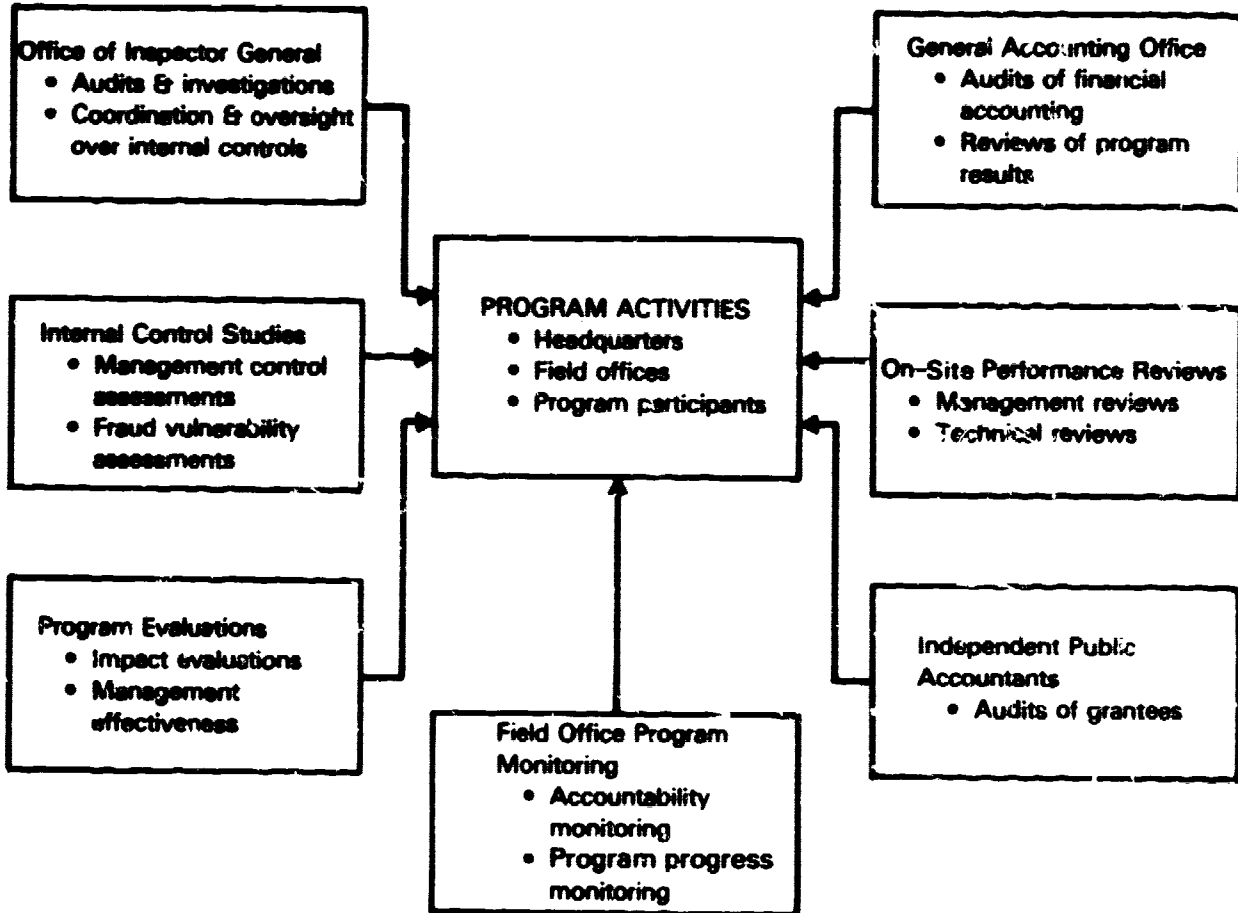
### On-site reviews

We found that HUD management does not have a reliable system to systematically monitor the quality of field performance. This concern is not new, was reported in the past, and in part is being addressed by current management.

Evaluating staff performance is a vital management activity and part of a system of accountability. HUD's on-site performance review system is twofold: headquarters program staff perform

Figure 4-1

# AUDITS, REVIEWS AND EVALUATIONS OF HUD



"technical" compliance reviews of regional and area offices, and regional offices perform "management" reviews of area offices. The Deputy Under Secretary for Field Coordination coordinates these reviews which are performed by program staff. The intent of this system is to determine the operational performance of field offices. It is the only management system that systematically evaluates the quality of field office work. The Deputy Under Secretary for Field Coordination is aware of problems in conducting field reviews and has begun to improve the performance review process. Selective changes, however, still do not address issues that we and the OIG have identified as important.

Results not used  
by management

On-site performance review results were not used by most of the managers we interviewed. Headquarters managers questioned the quality and the usefulness of performance reviews and tend to hold field offices accountable for results based on other factors such as personal knowledge, volume of complaints, and feedback from HUD clients. While such informal feedback may provide a sense of performance, it does not allow management to determine levels of operational efficiency and cost effectiveness on a comparative basis within and between field offices. Major problems of the review system include the following:

- Comprehensive standards for performing reviews do not exist. Reviews are not made according to a consistent set of standards or uniform guidelines. This results in inconsistent quality and superficial results. Also, review results are not compared between offices, do not indicate the seriousness of problems uncovered, and vary greatly in presentation. Program officials acknowledge that the time allotted for field reviews is generally too short to uncover all major problems in performance.
- No consistent strategy exists to determine which program areas within area offices get reviewed. Also, the on-site reviews do not evaluate HUD headquarters where one-third of its workforce is located.
- Review teams are not selected on the basis of expertise. Factors affecting team composition include travel costs and the willingness of staff to travel to a region.
- Review teams may be reluctant to report serious findings since the teams are drawn from offices who design the programs.

## Lessons not learned

We have previously reported on problems with HUD's on-site performance reviews. For example, in 1978, we concluded<sup>2</sup> that HUD had

- no standards for measuring performance,
- no guidelines for developing and establishing criteria,
- no priority system to review problem program areas and to allocate resources accordingly,
- no recommendations for improving performance, and
- no mechanisms to evaluate headquarters organizational units.

Reflecting disappointment with the current system of on-site reviews, the Office of the Deputy Under Secretary for Field Coordination requested and received from the OIG an analysis of performance reviews, completed in September 1982. The OIG suggested a range of recommendations, including

- establishing objectives of evaluation to conduct targeted reviews of the most problem-ridden offices,
- ranking area offices according to degrees of problems,
- organizing teams to develop management review standards,
- devising a system to have distinct review teams,
- expanding review timeframes,
- increasing frequency of reviews,
- developing peer review to conduct technical reviews, and
- categorizing findings.

The former Deputy Under Secretary agreed with some of the OIG's recommendations, including the need for program areas to submit written review plans for him to review and revise, and rank problem area offices for targeted reviews. Another effort being considered is writing an operating instruction manual that incorporates statements of the roles of the Deputy Under Secretary for Field Coordination and regional and area office managers.

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<sup>2</sup>HUD's Evaluation System--An Assessment (PAD-78-44, July 20, 1978).

On-site reviews are the primary opportunity for determining if programs are being delivered effectively and efficiently and to determine comparative performance between field offices. The reviews provide feedback to managers at all levels and can be an important technical assistance device to field staff. Without a consistent set of review standards and better measures of field performance, however, review results will not improve. Also, unless headquarters managers use review results to hold field offices accountable for results, field reviews employing headquarters personnel will remain an ineffective performance measure.

### Monitoring program participants

HUD's past problems in monitoring program participant performance has been substantially documented in numerous audits and reviews and is the subject of a study by HUD's Committee on Fraud, Waste, and Mismanagement. Improving monitoring is a high priority, and positive steps have been initiated, such as special training, revising procedures, and establishing several monitoring priorities to guide and redirect field office work. These actions address only some of the basic causes of past monitoring problems as reported by the Committee. Substantial progress, however, will be impeded by such factors as inadequate staff skills, role conflict among staff, and HUD's limited enforcement of corrective actions. These represent basic causal factors affecting program management throughout HUD.

Monitoring generally includes those activities necessary to assure that program participants spend funds appropriately and effectively. Monitoring is a basic part of field offices' program delivery and is accomplished by visiting and inspecting program performers and by examining financial statements, grantee performance reports, and other data.

Recently, the concept of "accountability monitoring" was developed, prompted by a need to strengthen efforts to reduce fraud, waste, and mismanagement by participants. According to HUD, accountability monitoring encompasses basic monitoring objectives of program delivery, placing special emphasis on reducing program abuses.

### Past monitoring problems

HUD's past monitoring problems have a long history, documented in numerous audits and reviews by us, OIG, headquarters and regional performance evaluations, and consultants. For example:

- OIG's semiannual reports to the Congress since 1979 have cited inadequate monitoring of program participants.
- An OIG 1980 survey by its auditors and investigators concluded that a major problem in HUD is a "... need to

strengthen overall monitoring by program representatives, more specifically, on-site monitoring."

- A March 1982 CPD report stated that 90 percent of local government officials interviewed in 19 cities expressed concern that HUD's monitoring was not very useful, was superficial, and was not substantive. They generally expressed dismay over the quality of HUD monitoring.
- A 1982 OIG audit concluded that neither HUD monitors nor grantees had firm control over the activities carried out by the operating agencies and that nearly all grantees' management systems were inadequate.

In response to persistent reports on monitoring deficiencies, HUD's Committee on Fraud, Waste, and Mismanagement studied and reported on the problems HUD has had in monitoring its program participants. The Committee's report was released in December 1980 and contained several important findings and recommendations.

1. Program staff should establish policies and procedures to adopt accountability monitoring. The Committee found a lack of adequate guidance regarding monitoring participants, out of date program handbooks, and a lack of firm HUD policy regarding the responsibilities of program administration in assuring program integrity. Staff were also found to be unsure about their ability and responsibilities for monitoring for fraud, waste, and abuse--a role perceived by staff to be adversarial and the responsibility of OIG.
2. Resources should be targeted to HUD's high-risk programs. The Committee faulted the Secretarial priorities and the operating plan for encouraging quantity over quality in monitoring visits, resulting in wasted resources and inadequate attention given to high-risk programs.
3. The role of the monitor needs to be clarified and management needs to strengthen support for monitoring. The Committee found that staff monitors have conflicting duties which cause adversary-advocate relationships with their program participants. Managers believed that this can be overcome only by clearly defining expectations for the monitors. The Committee noted that headquarters gives mixed signals concerning monitoring expectations. Changes in program policy to allow greater flexibility (as in the Community Development Block Grant Program for example), the operating plan's emphasis on quantity rather than quality, and lack of rewards for indepth monitoring all contribute to monitoring policy confusion. The Committee also found that monitoring findings were not corrected due to a lack of effective sanctions to encourage compliance among grantees and other program participants.

4. Monitors need training to perform comprehensive reviews to assure participant accountability. The Committee found that monitors lacked appropriate monitoring skills and techniques and generally were not aware of high-risk areas.

Progress toward  
improving monitoring

The Secretary adopted the Committee's recommendations in April 1981 and created a task force to implement improvements. Actions taken since include:

- developing lists of high-risk program areas susceptible to fraud, waste, and mismanagement;
- establishing, for fiscal year 1982, Secretarial priorities to reflect the need to increase monitoring efforts;
- providing guidance to monitors in field offices;
- revising some handbooks to provide better monitoring guidance; and
- initiating training to improve monitoring skills.

Despite these initiatives, we believe committee issues which need continuing attention are:

- According to the Committee's findings, inadequate staff capabilities, role conflict among monitors, and negative attitudes toward monitoring could not be "solved" at that time with HUD's present level of effort. As discussed later, inadequate staff capabilities and lack of training continue to be major problems in HUD. Further, the role conflict between advisor versus advocate is not easily resolved. For example, CPD's April 1982 mission statement and operating plan guidance for field activities make a clear distinction between monitoring for fraud, waste, and mismanagement and other monitoring objectives, such as assuring that grantees are meeting congressional intent and assessing program progress. The duality of monitoring roles as suggested by CPD's guidance further indicates the need for management to resolve the continuing conflict in the monitors role.
- Program priorities have not reflected the need to monitor more effectively. Although monitoring was a major component of the Secretary's 1982 operating priorities--7 of the Secretary's 17 priorities were monitoring related--such priorities are poorly defined and measured. HUD's new "management plan process", in our opinion, needs to contain monitoring priorities which are defined and measured to encourage effective and quality monitoring.



--HUD often lacks the sanctions and the political power to correct deficiencies uncovered by monitoring. Program officials in Housing and CPD told us that the lack of effective sanctions prevents them from holding grantees and performers accountable. Withholding funds for subsidized housing, for example, is a primary enforcement tool yet is infrequently applied due to its social consequences. A U.S. Senate investigative staff reported that HUD has been reluctant to recommend foreclosure as a means to bring loans current. Withholding assistance payments to subsidized project owners who misrepresent tenant incomes could result in default, thereby making HUD the unwilling owner of the mortgage. A working group within HUD's Committee on Fraud, Waste, and Mismanagement evaluated these issues and reported on the need for sanctions in March 1983. The problem of sanctions is influenced by policy, design, and political factors which are largely beyond the control of HUD's managers at the field office level.

These issues inhibit monitoring. In the short run, program priorities can be better defined to guide and evaluate monitoring performance and more can be done to clarify the role of monitors--two suggestions made by the Committee but not effectively addressed by current management. Improving staffing capabilities and developing better information systems are much more difficult to accomplish because they require solutions that take years to implement. HUD's lack of a long-range focus--discussed in chapter 3--is a substantial impediment to these necessary improvements.

### Managing audit and review findings

Internal and external audits, reviews, and evaluations of HUD operations report a substantial number of deficiencies throughout HUD's programs. For the 12-month period ended March 31, 1982, OIG alone reported over 8,000 findings. Although HUD has procedures for resolving findings from these sources, the effectiveness of these efforts is unclear. For example, some are "cleared" but the deficiency remains, and the attention given to resolution varies by HUD office. HUD needs to more effectively "manage" the process of analyzing, controlling, and resolving program deficiencies identified by all sources.

Audits and reviews of HUD's program operations are performed by a variety of sources:

--OIG annually performs many audits on program activities, focusing primarily on the effectiveness and appropriateness with which program staff and other performers spend funds.

--We issue more than 20 reports a year on HUD operations, including financial audits, program results reviews, and reviews for economy and efficiency.

- Headquarters and regional office staff conduct on-site performance reviews on the technical and management aspects of program delivery.
- HUD's Office of Policy Development and Research conducts evaluations of policy and program impact and effectiveness.
- Program staff perform Fraud Vulnerability and Management Control Assessments, in conformance with OMB Circular A-123.
- Independent public accountants (IPA's) conduct thousands of financial audits each year of HUD performers and contractors.
- Field office program staff conduct hundreds of monitoring reviews of grantees and performers.

Standards of audit/review performance and procedures to resolve findings vary. GAO, OIG, and IPA "audit" findings are more elaborately tracked and controlled and given more serious attention by HUD managers owing to administration and departmental priorities to control fraud, waste, and mismanagement. OIG's role in reporting to the Congress all unresolved audit findings provides additional incentive. HUD's Audits Management System, established in December 1977, describes the procedures for "managing" audit findings. HUD does not have a comparable process for tracking and resolving deficiencies from other sources, such as the on-site reviews, yet these sources uncover significant program deficiencies.

HUD lacks a system for centralizing and analyzing deficiencies reported from all sources, setting timetables and priorities for resolution, and developing a department-wide mechanism for tracking and controlling findings and ensuring progress toward resolution. Such a system would also provide insights for identifying major causes of program problems and may suggest ways of avoiding management deficiencies in the future.

#### HUD has trouble correcting deficiencies

HUD efforts to correct the deficiencies cited in various reviews are often inconsistent and ineffective. For example:

- OIG is concerned about the quality of management efforts to clear its findings, noting in one of its 1982 semiannual reports to the Congress that clearing findings based on promises (allowable under current HUD directives) does not necessarily result in corrective action by management. An OIG survey of closed findings reported in its 1982 report revealed that in 21 percent of the cases reviewed, managers did not implement promised actions.

--Deficiencies reported from on-site performance reviews yield many substantial and recurring problems in area office management and program delivery. The poor response by field offices is so serious that in May 1982, the Assistant Secretary for Housing compiled an inventory of recurring findings and instructed office managers to "certify" that if the problems still existed they would be corrected.

The seriousness of findings from various reviews is not always related to the followup effort. On-site review findings are not as aggressively pursued as OIG findings, yet can reflect program problems. We are not suggesting that OIG findings should be treated differently but rather that deficiencies reported from all sources should be analyzed, in the context of a department-wide strategy for correcting underlying management problems.

The effort required to correct deficiencies from audits and reviews competes with program delivery activities--an issue widely recognized and reported by us<sup>3</sup> in the past as a government-wide problem. Other factors contributing to HUD's unresponsiveness to findings include the following:

--The significance of findings varies. Our review of deficiencies from all sources shows they span a broad range of importance--some are clearly major problems, while others appear far less significant, focusing more on minor administrative compliance. A March 1982 report on local government officials interviewed in 19 cities stated that monitoring efforts tended to overemphasize procedures and documentation rather than assessment of program quality. We also found that on-site performance review reports in the Seattle, Ft. Worth, and Philadelphia Regional Offices, in our opinion, did not discuss findings relative to program effect. Thus, the individual office affected had little sense of the seriousness of the finding. Relating findings to real or potential effect or impact are more useful to management, by providing a basis for concentrating followup attention.

--A lack of sanctions or penalties to force adherence to regulations and procedures contributes to slow compliance in some program areas. CPD monitors have expressed considerable concern about the efficacy of pursuing findings on disallowed costs when their grantees are unable to correct the problem. A similar problem exists in PHA monitoring. Financially distressed PHAs are often unable to correct findings reported by field staff audits due to a lack of funds. Without effective enforcement capability, a

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<sup>3</sup>More Effective Action Is Needed on Auditors' Findings--Millions Can Be Collected or Saved (FGMSD-79-3, Oct. 25, 1978).

feeling may persist among staff that "why should we report problems if we cannot correct them?"

The volume of reported deficiencies and the cost of correcting every problem uncovered from all sources suggest a need to rank findings, set timetables for completion, develop uniform standards for clearance, and evaluate corrective actions in the context of a total departmental strategy. Responsibility for following up on findings is needed at a top management level to assure that prompt and serious attention is given to correcting deficiencies.

#### STAFFING--A LINK TO PROGRAM EFFECTIVENESS

HUD continues to have problems in developing appropriate levels of skills and expertise in many program areas. Rapidly changing organizational needs, coupled with workload changes and clerical shortages, will further strain HUD's efforts to improve its staffing. HUD should develop a department-wide, systematic approach to match staff capability to organizational needs and redesign its training approach to include needs assessment and evaluation.

#### Upgrading skills and expertise

Over the past several years, we, the OIG, and others have attributed many of HUD's program delivery problems to the need to upgrade and train staff. For example:

- OIG has repeatedly reported major staff inadequacies in property disposition, citing poorly trained employees as a major reason why monitoring was inadequate and program abuses went undetected.
- A consultant and a congressional committee attributed significant program problems in loan management activities to inappropriate staff skills.
- The OIG recently attributed significant monitoring deficiencies of grantee operating agencies to lack of training.
- In March 1982 HUD's survey of grantees gave low marks to the quality of area offices' community development representatives. Those grantees believe that HUD staff were becoming less useful and suffered a technical skill drain.
- HUD's Committee on Fraud, Waste, and Mismanagement concluded in 1980 that HUD staff lacked the skills to properly monitor and review its programs for fraud, waste, and mismanagement.

- Program staff in Philadelphia, San Antonio, and Seattle Area Offices told us they have many unmet training needs, which in part reflect lack of expertise and skills necessary to accomplish specific program objectives.
- The Assistant Secretary for Housing, in May 1982, sent a list of major problem areas to all field offices, which indicated individual skill performance and management deficiencies commonly exist in regional and field offices. Deficiencies included superficial financial analysis of mortgagors which not only violates internal policy but compromises the project's financial integrity.
- An official at the 1982 CPD Directors Conference cited HUD's most pressing organizational issue as the "placement of staff in the right position to meet changing needs of the department." Considerable concern was also expressed over the need for training.
- We found that the Philadelphia Area Office incurred \$124,000 in salary costs to collect \$120,000 of delinquent debts from Title I home improvement loans. A contributing factor may have been the acknowledged poor training of debt collectors.

Contributing to HUD's staffing problems are workload imbalances and clerical shortages. For example:

- We found that in the Philadelphia Area Office, workload increases in multifamily management activities, together with corresponding cuts in staff, has resulted in a doubling of project coverage for loan servicers. Area office staff believe this situation leads to weaker project oversight and superficial monitoring reviews. A recent consultant report on HUD's loan management operations also expressed concern over high workloads and warned that HUD must not overburden its staff if waste and mismanagement are to be avoided.
- Several area office officials told us they are forced to use staff for monitoring reviews in specialties for which they are not trained.
- Area office staff in San Antonio and Seattle told us that they are overstaffed in some housing and CPD program areas. Nationwide, a shift in program emphasis away from production to management in housing and increased emphasis on monitoring in CDBG will further create a need to shift staff to match workload requirements.
- Clerical shortages are one of the most pressing staff problems in the three area offices we visited. Figures provided by HUD's Office of Management Information showed that field clerical staff years have been cut by nearly

30 percent since 1980. The result has been that professional staff are doing clerical duties, which prevents them from fulfilling program responsibilities. Professional staff told us in two area offices they often had to do their own typing and filing. The situation in some CPD areas is so severe that one city community development office, recognizing HUD's clerical "problem," offered to do HUD's typing. A recent CPD survey revealed that one field office has a ratio of 1 clerk to 21 professionals--1 to 5 or 6 is the average in HUD's field offices.

The effect of various staffing inadequacies will continue to take its toll on HUD's ability to monitor its programs and grantees for fraud, waste, and mismanagement and to provide technical assistance to grantees and other performers. Improving the quality of its workforce is particularly important to HUD as it continues to fundamentally redirect its housing and community development programs.

### Staff development and planning

HUD does not have a department-wide staffing needs planning program to forecast long-range personnel requirements and coordinate assessments of staffing needs. Current planning estimates are short range and occur only as part of the annual budget process. HUD does not systematically evaluate staff needs and requirements and has no organizational unit to perform this function.

Program offices provide organizational planning services to accomplish functions and develop training requirements. The Office of Training establishes, coordinates, and implements training and development policies and programs for all HUD employees.

We previously reported that the principal actions necessary to develop and use sound planning procedures which provide valid, quality data for determining staffing needs include:<sup>4</sup>

- Assessing the current work force characteristics, turnover, performance, and productivity data. This involves developing a personnel data repository and analysis system, which serves as a major data source for the staffing needs planning activities.
- Identifying the differences between the current work force characteristics and the position and organizational structures requirements.

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<sup>4</sup>Federal Work Force Planning: Time for Renewed Emphasis  
(FPCD-81-4, Dec. 30, 1980).

- Determining recruiting and training workloads and the volume of internal movement, developing career progression tracks and criteria for work force mix decisions, and developing alternative action plans reflecting work force mix combinations.

Management recognizes the need for a systematic planning approach to determine the long-range staffing needs and guide its efforts to improve staff capabilities. For example, the Office of Housing faces major program changes with significant staffing implications and has initiated action to assess its needs. In mid-1982, the Assistant Secretary for Administration was requested to provide

- an inventory of Housing field personnel and their skills,
- new job descriptions to suit the changes in Housing, and
- training programs to provide the skills to meet Housing's new jobs.

A study team was proposed to perform the requested Housing management and staffing study, but the study had been delayed because of a pending headquarters reorganization. This study represents an opportunity for management to integrate needs and requirements to operational plans.

#### Need for an effective training program

Training is a management tool which contributes to the effective development and use of staff resources to achieve an agency's goals. HUD, however, does not formally assess training needs or evaluate training results. Consequently, HUD cannot determine if current training efforts improve staff capacities.

HUD recognizes that it must improve its training program to ensure that staff resources are developed and organizational goals achieved. For example, in 1982, HUD established a separate Office of Training to develop a system to identify all of HUD's training needs, and evaluate HUD's training results.

A lack of information on training results also hampers HUD's efforts to evaluate the training program. For example, although several systems keep track of dollars and training courses, no complete data on the number of employees trained in any given period exists. The Office of Training has recognized this weakness and is improving its data collection. Without centralization the Office of Training has had to rely on information gathered from regional training offices. These offices vary in their own needs assessment activities and methods of gathering field data.

Identifying training needs could also include the accepted techniques of considering turnover, merit or performance ratings,

suggestions from formal training advisory committees, and analyses of cost.

The Office of Training also faces the problems of not having a system to evaluate the effectiveness of employee training. Except for a few recent and limited studies of training, we found that HUD does not systematically evaluate whether those employees trained are receiving the necessary skills and knowledge to do their jobs better.

#### INFORMATION SYSTEMS ARE NOT SUPPORTING MANAGEMENT

Managers lack adequate program information to support basic planning and policy decisions and to exercise oversight of program results. Program officials expressed varying degrees of disappointment over the quality, timeliness, and usefulness of many HUD management information systems. Chapter 5 discusses the effectiveness of HUD's management information systems and makes recommendations for improvement.

Management information problems appear widespread. Examples of deficiencies previously reported include the following:

- A 1979 Senate investigative staff report on HUD's multi-family loan management program "found that HUD lacks an effective departmental-wide system to monitor HUD-held projects...."
- In the public housing area, a congressional investigative staff reported in 1981 that they were "shocked at the paucity of timely, meaningful and useful data available to officials at the Central Office involved in the daily oversight of the public housing program."
- A 1981 consultant's study reported that the administration of HUD's billion-dollar operating subsidy program "suffers from a lack of reliable and detailed data on PHA financial conditions, building conditions, and tenant characteristics...."
- In 1980, a former HUD Deputy Assistant Secretary for Research wrote that in public housing, "basic policy decisions affecting the entire program continually take place with substantial ignorance of the basic facts."
- A study on HUD's management system found that one of the major reasons why most of HUD's operating plan reports were not more widely used was the poor quality of information in the performance reports.



HUD's management information systems are not providing timely and accurate data necessary to establish accountability for, and control over, housing and community development programs. Although HUD spends millions each year to gather data, much of it cannot be relied upon for controlling and monitoring programs, and some information needed by managers is not always accurate, is untimely, or is not readily available. For instance, one loan management system is used to identify multifamily housing projects headed for financial difficulties. However, the system provides untimely data and is of limited value in identifying trends indicating financial problems are imminent. Such monitoring is essential because of the number of projects which default. For example, relative through September 30, 1982, HUD has written off about 32,000 multifamily projects valued at \$4.9 billion. Of this amount, 13.8 percent (4,422 projects) have defaulted. This represents about 9.2 percent (\$4.9 billion in insurance claims paid out) of the total multifamily insurance written.

Accounting systems are important for a wide range of program management activities, including

- planning and developing strategies for program funding allocations based on needs assessments;
- evaluating program results to measure mission accomplishment;
- monitoring grantees' use of funds to detect and minimize fraud, waste, and mismanagement; and
- monitoring grantees' performance to help assure the most effective use of funds.

Discussions with program officials and other experts suggest that several reasons contribute to HUD's data collection problems:

- failure to design systems that can adapt to program change;
- lack of grantees' and performers' incentives to supply timely, accurate data, which often is the basis of the information system input;
- inefficient administration of management information systems and ADP functions; and
- little systematic assessment of user needs to develop and maintain information systems by management.

HUD program managers are increasingly dependent on information system support to plan and develop policy, evaluate agency progress, and monitor grantees' performance. Given the agency's past history of data problems and current frustration with poor quality management information, we believe that the redesign and

purification of management information systems discussed in chapter 5 are essential for more effective program delivery.

#### CONSTITUENT GROUPS' OBSERVATIONS ON THE QUALITY OF HUD'S PERFORMANCE

Most of the representatives we contacted from 17 organizations served by HUD programs were critical of the quality of program delivery. The most common problem observed by organizations was the deteriorating skills among field office staff. Reasons cited for the drop in skills include reduced staffing levels, a decline in expertise in many field offices, high turnover, too many reorganizations, and lower morale.

A factor seen as a major influence on HUD managers is the pressure exerted by the OMB, with respect to policy and regulatory matters. Several representatives, including those from state and local governments, provided examples of this pressure.

Some groups cite HUD's lack of a sense of direction as a problem and others believe HUD overregulates and is also heavily burdened with complex, inconsistent policies. A few groups observe that communication and accountability problems have emerged as a result of HUD's many field reorganizations.

We found the experiences and opinions of these groups useful, especially during the early stages of our review. We recognize that the impressions formed by constituent groups is greatly influenced by the extent individual needs are met and that HUD serves a large number of clients.

#### CONCLUSIONS

HUD faces major challenges in delivering its housing and community development programs. Programs are not delivered as efficiently as possible and HUD has little basis for measuring progress toward program goals--a necessary ingredient for accountability. Although the nature and severity of HUD's management shortcomings vary from program to program, several problems are common throughout HUD. It is neither effectively providing guidance and direction to its program delivery staffs nor developing staff with the appropriate level of skills and expertise. Staffing inadequacies in particular limit HUD's ability to properly monitor its programs and grantees. HUD's staffing needs planning is short-range and limits its ability to effectively respond to changing workloads. Furthermore, HUD does not have the program information necessary to support basic planning and policy decisions. Without this information HUD is handicapped in its ability to develop strategies for program funding, evaluate program results, and monitor the use of funds.

Improving program delivery requires changes in several management processes, such as establishing performance review standards and streamlining clearance procedures, and a stronger

commitment to manage existing systems more effectively. Much can be done in the short run. Basic causes of HUD's continuing program problems, including staffing inadequacies, lack of sanctions, and poor ADP systems, are more long-term in nature and will require a departmental strategy with accountability for results firmly established. The suggestions made in chapter 6 for improving continuity in management are crucial for improving management over the long run.

#### RECOMMENDATIONS TO THE SECRETARY OF HOUSING AND URBAN DEVELOPMENT

Many of the problems discussed in this chapter are difficult issues which will take time to resolve. Our recommendations are grouped into short and long range. HUD can implement short-range recommendations immediately without major changes to existing systems. Long range recommendations will require a sustained level of effort by HUD and a high degree of coordination among many levels of management.

For the short range, HUD's Secretary should:

- Expand the use of internal editing staff to rewrite existing instructions.
- Involve users, such as field office staff, in the preparation of instructions.
- Establish a central point of accountability to oversee compliance with streamlined departmental clearance procedures.
- Improve monitoring of program participants. We believe the findings and recommendations of the Committee on Fraud, Waste, and Mismanagement should be aggressively pursued by all HUD program offices. The Secretary should
  - develop priorities that reflect the need for better quality monitoring and
  - define the objectives of all types of monitoring and specify realistic expectations for program staff.
- Improve on-site performance reviews by
  - developing standards and guidelines for reviews to obtain a reasonable level of consistency and comparability,
  - adopting a plan for reviewing offices and programs that considers resource limitations and concentrates on serious problems, and

--including headquarters program offices in the universe of offices reviewed.

--Improve the management of audits and reviews by developing an action plan for improving the internal response to problems arising from all audits and reviews. Such a plan should include

--categorizing and prioritizing findings and setting timeframes for correction and

--establishing central control for assessing and reporting on the progress of corrective action.

Improved staff skills through training and other staff development activities, as well as planning, developing, and implementing various information and management systems, represent important management activities which transcend the typical tenure of politically appointed managers. A need exists in HUD to develop this long-range focus if program delivery constraints presented in this chapter are to be effectively addressed. To improve staff resources over the long-term, the Secretary should

--establish a staff development program linked to overall organizational planning, which will coordinate departmental efforts to forecast personnel needs;

--integrate staff needs assessment with program implementation plans; and

--initiate an aggressive training needs assessments program, including periodic training evaluations.

#### AGENCY COMMENTS AND OUR EVALUATION

HUD agreed that it has continuing problems with providing clear and timely program delivery guidance to HUD field offices and program participants. HUD is taking some corrective actions such as eliminating obsolete or redundant guidance, simplifying handbooks, and speeding the clearance process. We believe that the actions HUD has already taken, along with implementing our recommendations, should significantly improve HUD's performance in this area. HUD agreed with our recommendations on improving its monitoring of program participants and its on-site performance reviews and is attempting to correct the deficiencies we cited.

Concerning management of audits and reviews, HUD stated that our recommendations will be effectively addressed by HUD's efforts to improve internal controls in response to OMB Circular No. A-123 and the Federal Managers' Financial Integrity Act. HUD said that its new system of internal controls incorporates all known reviews, audits, and evaluations in determining vulnerable areas. In this regard, the system is still being developed and will not be fully implemented until sometime in fiscal year 1984.

Also, while the system is designed to categorize and rank audit and review findings, it will not necessarily establish accountability and timeframes for corrective action, as we recommend. Further, the system will exclude findings relating to policy matters, since the internal control standards adopted pursuant to the Federal Managers' Financial Integrity Act are not intended to cover agency policy making. Accordingly, while we support HUD's efforts to improve its internal controls, we continue to believe our recommendations will improve the usefulness of audits and reviews to HUD management.

Regarding our recommendations for improving staff skills, HUD said that it is planning, on a pilot basis, to analyze staffing skills and needs in the housing area. If successful, HUD said it will extend the effort to other parts of the agency. Additionally, HUD said its Office of Training is working on determining skills which will be needed to meet new program directions. We support these efforts and believe that they are important parts of our recommendations. In this regard, however, by further linking staff skills analysis to HUD's proposed management plan process noted in chapter 3 and to overall organizational planning noted in chapter 2, HUD's management will be provided with a systematic approach to match staff capabilities to program, organizational, and training needs.

## CHAPTER 5

### FINANCIAL MANAGEMENT

#### INFORMATION SYSTEMS INTEGRITY

The financial management information systems that support policymaking and program implementation have not kept pace with the needs of the Congress or HUD's management. After years of criticism, management acknowledgement of problems, and the expenditure of millions of dollars on systems development, HUD's information systems still are not adequate. Although HUD's management has initiated a number of actions to improve these systems, it has not fully addressed the underlying causes of these systems problems. To eliminate these causes HUD needs to

- create a central direction and focus for development of financial management policies and systems, and
- improve its long-range planning to establish improved oversight and control over automated systems.

HUD's management information systems do not provide timely and accurate data necessary to establish accountability for, and control over, housing and urban development programs. Although HUD spends millions each year to gather data, much of this data cannot be relied upon for controlling and monitoring programs, and other information needed by managers is not always accurate, is untimely, or is not readily available.

In addition to program functions, accounting activities would benefit from better systems. Although HUD started automating its accounting systems in the 1950's, these systems are not fully automated and extensive manual effort is needed for accounting functions. Historically these functions have received limited top management emphasis and lower priority in systems development. The result has been, as this review shows, that systems do not

- include necessary internal controls to adequately protect against fraud, waste, and mismanagement;
- utilize efficient work processes;
- comply with principles and standards prescribed by the Comptroller General; and
- promote sound financial management by providing management timely and accurate financial data needed for policy oversight, program implementation, and budgetary analysis.

**DESCRIPTION OF FINANCIAL  
MANAGEMENT INFORMATION SYSTEMS**

Financial management information systems, in the broadest sense, is the gathering, storing, processing, analyzing, retrieving, using, and communicating of information to perform accounting, budgeting, managerial, professional, technical, or clerical tasks. The integrity of these systems, in short, refers to their soundness and completeness. The systems' objectives are to increase management efficiency and effectiveness and fully disclose the results of operations. With HUD's diverse programs, these results could include areas such as the economic viability of housing projects and the use of funds by grantees, as well as traditional accounting functions such as obligation and fund control.

To accomplish these objectives HUD relies on a large number of manual and automated information systems. HUD's field offices and the offices of the assistant secretaries receive, collect, and generate input to the Department's management information systems. In addition to an unknown number of manual systems, as of December 31, 1982, HUD headquarters had 103 automated operating systems, 20 under development, and 12 planned. At the same time, the HUD regional offices had 25 automated operating systems and 6 under development.

These information systems support accounting and administrative functions and assist managers in performing program functions as the following chart of headquarters systems illustrates.

<u>Responsible assistant secretary</u>	<u>Operational systems</u>	<u>Systems under development</u>	<u>Planned systems</u>	<u>Total</u>
Administration	45	6	4	55
Housing	32	8	3	43
Community Planning and Development	9	2	0	11
Other	<u>17</u>	<u>4</u>	<u>5</u>	<u>26</u>
Total	<u>103</u>	<u>20</u>	<u>12</u>	<u>135</u>

The HUD budget includes separate funding for the automatic data processing activity which supports these systems. The fiscal 1981, 1982, and 1983 budgets for this support were \$34.9 million, \$30.4 million, and \$31.6 million respectively. The 1983 budget justification states that HUD's budget will provide the level of support needed to maintain the current systems but will not support a major upgrading of these systems.

## REQUIREMENTS FOR SYSTEMS INTEGRITY

An adequate system of internal control has long been recognized as an indispensable part of complete financial management systems.<sup>1</sup> Internal controls provide management with reasonable but not absolute assurance that

- financial and management resources are safeguarded from unauthorized use or disposition;
- transactions are executed according to authorizations;
- financial and management records are accurate and reports are reliable; and
- applicable laws, regulations, and policies are adhered to.

Also, the Congress emphasized the need for systems integrity and established an overall policy for operating these systems. The Paperwork Reduction Act of 1980 required each department or agency to establish a single, clear line of accountability for data processing activities. In addition, this act was designed to

- minimize the federal government's cost of collecting, maintaining, using, and disseminating information;
- maximize the usefulness of information collected by the federal government; and
- ensure that automated systems are used to improve service delivery and program management, reduce waste and fraud, and reduce the information processing burden of the federal government.

To accomplish the purpose of this act, each agency, including HUD, is required to designate a senior official with responsibility to carry out the act.

The act does not prescribe a specific organizational structure for carrying out responsibilities but does require that the designated senior official report directly to the agency head. Also, the act sets out certain responsibilities involving compliance and accountability and indicates that the senior official needs to exert substantial influence and authority over the use of information resources.

Further, in October 1981, the Office of Management and Budget issued Circular A-123 requiring all agencies to maintain adequate

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<sup>1</sup>Section 113 of the Accounting and Auditing Act of 1950 (31 U.S.C. 3512).



financial control systems and to periodically assess their effectiveness. This requirement was recently reinforced and strengthened by the Federal Managers' Financial Integrity Act of 1982 (Public Law 97-255) which required ongoing evaluations and reporting on the adequacy of systems of internal accounting and administrative control of each executive agency.

Under this act, each agency is required to provide reasonable assurance that:

- "(i) obligations and costs are in compliance with applicable law;
- (ii) funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and
- (iii) revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets."

Further, by December 31, 1983, and by December 31 of each succeeding year, the head of each department or agency is required to prepare a statement on the basis of an evaluation conducted in accordance with the OMB guidelines. The statement must indicate that

- the agency's systems of internal accounting and administrative control fully comply with the standards prescribed by the Comptroller General; or
- such systems do not fully comply with these standards; and
- the agency's accounting systems do or do not fully comply with the principles and standards and related requirements prescribed by the Comptroller General.

If the systems do not comply with the Comptroller General's requirements, a statement is required explaining any material weaknesses and the agency's plans and schedules for corrective actions.

#### SYSTEMS SUPPORTING PROGRAM ACTIVITIES

HUD's major program activities use and rely on management information systems. The headquarters and field activities under the Assistant Secretary for Housing are the biggest users. These major activities have consistently acknowledged that the systems do not fully meet their program management needs. The problem of poor data has included not only that needed by HUD managers for

program monitoring and decisionmaking, but also data needed by the Office of Management and Budget and the Congress for budgetary decisions and oversight functions. Chapter 4 discusses the need for improved information systems to support program delivery.

HUD has recognized that its management information systems were not designed to meet user's needs. For example, in 1981, HUD, as part of its justification for acquiring new equipment, commented on its systems as follows:

"Most of HUD's data systems were developed independently of each other to solve relatively specific problems for particular programs or administrative purposes. These systems were designed primarily for operation by data processing specialists and did not support the manual processes of program area staffs. Each system was created with unique input forms, output reports, and data bases. As a result, several HUD systems collect and process the same information--repeatedly--on communities, projects, properties, lenders, or even in-house work activities. While the systems are faster than older manual methods, they fall short of meeting total user needs."

More recent studies by internal and external groups (see apps. II and III), including us, have consistently pointed out problems requiring HUD management's attention, emphasized the importance of computer usage in HUD's future, and suggested management and operations changes to permit information systems to more fully meet management's needs. Examples of specific problems follow.

- Much of the data that the public housing authorities provide to HUD would be useful in calculating and budgeting HUD's annual public housing operating subsidies. However, HUD does not have automated systems to refine the data for use by the central program office.
- An information system cannot provide key data elements needed for program management even though the data is submitted to HUD on other forms or reports. The Director of HUD's Existing Housing Division identified data needed but not provided by this system including:
  - Rents collected from tenant families.
  - Administrative fees paid public housing authorities.

Also, in 1982, the Inspector General reported that HUD's standards and procedures for developing automated systems contained inconsistencies, some were never completed, and others were only partially implemented. The absence of effective standards and procedures inhibited management in controlling the development process. For example, the Inspector General reported that users

did not actively participate in testing new systems to ensure their integrity before they were implemented. Consequently, HUD installed systems which contained defects, resulted in excessive costs, and caused users to lose confidence in the systems. The Inspector General also reported a lack of procedures at HUD to (1) enforce system development standards, (2) track and evaluate users' problems with systems, and (3) monitor the resolution of such problems.

Our review of four major automated systems used to support Housing management reinforced the results of these prior studies. Appendix XI shows the history, purpose, contents, output frequency, and intended users of the systems reviewed. Appendix XII shows the results of our study of these four systems.

Our review also showed that HUD had acted to correct individual system deficiencies. However, the underlying causes of these deficiencies were not eliminated. Specific problems, many of which can be traced to a need for better planning and controlling system development and implementation (and which were consistently identified by the HUD studies and our review of HUD systems), included:

- Systems were developed without adequate analyses of cost effectiveness. Also, existing systems were not effectively evaluated for continued usefulness and cost effectiveness.
- Users' needs were inadequately assessed prior to designing systems.
- System capabilities were compromised as a result of cost or schedule overruns or budget constraints.
- Systems were implemented before effective user documentation and training were available, resulting in users not understanding system capabilities and processes.
- Systems were imposed on field offices without adequate consideration of the additional data entry burdens.
- Data quality was hampered by problems such as:
  - Incoming data was late or incomplete.
  - Data collection forms were overly complicated, data item definitions were inadequate, and clients were required to enter the same data on different forms.
  - The same data, often from the same forms, were input two or more times into different systems.

## SYSTEMS SUPPORTING ACCOUNTING FUNCTIONS

In addition to program functions, accounting activities also would benefit from better systems. Although HUD started automating its accounting systems in the 1950's, systems have not been fully automated and extensive manual effort is needed for accounting functions. Historically, top level management has not placed heavy emphasis on automating accounting operations, establishing internal controls, developing efficient and effective work processes, and assuring that accounting systems comply with prescribed principles and standards.

For example, in 1958, HUD introduced the first computer system for mortgage insurance accounting and by 1964 had computerized many of the processes in the insurance accounting system. In 1974, we reported on the Department's accounting system problems, and we have commented on the systems many times since. Our 1974 report noted that the Department had experienced difficulty in preparing the annual financial statements for the Federal Housing Administration fund. We pointed out that the delays made it impossible for us to report to the Congress on the results of the insurance operations and the financial conditions of the insurance funds by specified dates. We attributed the problems to

- a cumbersome accounting system which required several manual entries to record a relatively simple transaction,
- data required to maintain and/or update the insurance accounting records that were not promptly provided by HUD's automated data processing systems, and
- systems internal controls that were not adequate.

In 1975, the Department started to develop a system to integrate its mortgage insurance accounting subsystems. These subsystems were needed because of the volume of work involved. For example, HUD accounts for approximately

- five million insured mortgages on single-family homes,
- one million Title I insured home improvements loans,
- 300,000 home repairs to properties annually, and
- \$700 million in insurance premium collections annually.

However, management did not develop the needed automation to support efficient and effective accounting operations. Further, we have consistently been unable to express an unqualified opinion on the financial statements of the Federal Housing Administration fund because of accounting system deficiencies. These deficiencies have included errors made in entering accounting

data, backlogs in processing accounting data, and automatic data processing problems.

In 1981, after spending over \$27 million, the Department redirected its system development efforts. HUD's most significant change was in the method adopted to reach the original goal. Rather than developing a large and complex integrated system, the insurance accounting functions were divided into 15 major program components and related subsystems. Major emphasis was given to acquiring computer programs that were already developed and in use by private industry. As each subsystem is implemented, HUD plans to incorporate it into a consolidated accounting system that will also be built as much as possible from software products available in the private sector. The goal is for the consolidated accounting system to maintain accounting data that will meet all formal reporting requirements at the fund and Department level.

In addition to the problems in accounting for mortgage insurance programs, HUD also has experienced problems in performing the accounting, reporting, and financial functions related to other departmental programs. A 1982 HUD Inspector General report concluded that the accounting systems supporting these programs provided inaccurate and incomplete data. The systems were also labor intensive because of the many manual accounting and reporting functions. For example, external reports were prepared manually for the Office of Management and Budget, Treasury, and others because accounting system output reports were not in the proper format. This Inspector General report concluded that the assisted housing accounting system, which accounts for the public housing and rent supplement programs, was incomplete. As this system is the sole source for actual dollar and unit amounts relating to the reservation of loan, contract, and budget authority, this weakness has a major impact on the integrity of HUD's accounting and budgeting. Because this system did not account for the receipt and disbursement of funds or maintain the general ledgers, this information had to be maintained manually by the regional accounting divisions.

A memorandum provided to us by the current Assistant Secretary for Administration described the overall management and operational problems of the Office of Finance and Accounting as follows:

- The Office has not been sufficiently involved in HUD's financial policy development; consequently, the agency has adopted financially unsound practices which has made this Office's job even more difficult.
- HUD's field staff has been indifferent about reporting its financial transactions to the Office of Finance and Accounting, believing that this is an administrative burden imposed on regional program staff. This makes official accounting and financial reporting data both untimely and inaccurate. This has also contributed to the inability to

determine the amount of HUD's delinquent debt. It also accounts for why the program offices' numbers on total outstanding debt differ from those of the Office of Finance and Accounting.

--Only 40 percent of headquarters accounting systems are automated, and the field accounting systems are only slightly better. Moreover, most of the automated accounting systems are obsolete.

An analysis by the Office of Finance and Accounting staff in July 1982 pointed out similar weaknesses. For example, the report described the following weaknesses in HUD's three main accounting systems other than for Federal Housing Administration activities:

--The assisted housing accounting system which accounts for the rent assistance and public housing programs was fragmented and was not designed to account for budget authority and activity from inception through the end of the Department's financial responsibility. Complete, centralized general ledgers were not maintained for each appropriation from which timely external and internal reports could be prepared.

--The program accounting system for HUD's grant programs, including community development block grants, needed a replacement for its data base management system and improvements to its internal and external financial reporting.

--The general administrative accounting system is used to process administrative staff expenses and other general accounting transactions. It is a combined manual and automated operation. Many reports are manually prepared, causing delays and occupying staff who can be better used in researching problems and analyzing reports. In addition, the lack of written operating procedures causes errors, loss of management control, and inefficiencies.

In addition, our review showed that HUD's accounting systems were not adequately supporting budget development and budget execution monitoring. Page 60 discusses the effort required to compile budgetary data from the various HUD accounting systems.

### Providing internal controls

The message of internal and external reports have been that HUD's information systems did not include adequate internal controls. Our review identified specific areas that needed improvement. HUD needed to

--improve internal controls over collections of single-family insurance premiums from mortgagees,

--place receipts under immediate accounting control by headquarters, and

--process receipts and disbursements in accordance with sound cash management practices.

Details on the results of our review in these three areas are included as appendix XIII.

### Streamlining accounting processes

Both our reviews and the Inspector General's reviews have identified persistent needs for HUD to streamline its accounting processes to eliminate problems. These problems include the need for improving billing and collection of defaulted Title I home improvement loans. While HUD could benefit from automating accounting systems, the processes used must also be improved.

HUD has contracted for development of a system to enhance control over and collection of home improvement loans (Title I). Followup work on our prior report<sup>2</sup> on HUD's collection efforts illustrates the need to improve the collection process in addition to automating the system.

We found that most aspects of the home improvement loan program were centralized, but field offices handled collection efforts. Before HUD initiated collection action, the lender submitted the defaulted loan to HUD headquarters for payment. HUD headquarters processed this claim through several units in the Office of Finance and Accounting and the Office of Title I Insured Loans to validate the claim, compute the amount of payment due the lender, establish records, and determine the appropriate field office to handle the collections. If this process takes too long, HUD has trouble collecting the defaulted loan because it is generally recognized that the older a debt becomes the more difficult it is to collect.

Our review of selected cases and discussion with HUD officials indicated that it was taking over 6 months and up to 1 year, in some cases, after headquarters received the claim before it was transferred to the field office for collection. These delays reduce the chances for collection since many borrowers sell their property, move, or declare bankruptcy. Unless the process is streamlined to expedite field collection action, the full benefits of automation will not be realized.

We also found inconsistencies between HUD procedures for compromising (settling with debtors for less than the full amount

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<sup>2</sup>Defaulted Title I Home Improvement Loans--Highly Vulnerable to Fraud, Waste and Abuse (AFMD-82-14, Dec. 12, 1981).

due) and complete write offs of loans. HUD has granted area offices authority to writeoff debts as uncollectable. The area offices can determine that the debt is economically uncollectable after analysis of the case and use of appropriate collection procedures. On the other hand, only headquarters has the authority to compromise debts at less than full value. As a result, area office staff must prepare and transmit cases to headquarters for review before the debt can be compromised. We were told by an area office official that the debtor's check was held at the area office for over a month. Area office staff stated that this approval process takes too long and, in some cases, the opportunity to compromise is lost. This process must be streamlined before the automated process can be fully effective in improving debt collection.

HUD also has a process, which, if linked closely to the defaulted home improvement effort in area offices, could improve the collection program. HUD headquarters staff financial representatives visit participating lenders about every 2 years to evaluate compliance with program regulations, provide advice and direction on the program, and review lenders' claim collection procedures. A HUD Title I official in Housing at headquarters said Housing staff prepares a written report. Area office representatives included in our review stated, however, that they had little contact with headquarters staffs and were not always informed of visits or provided copies of reports. Such contact between headquarters and field staff could provide valuable insight into the existence of problem lenders or alert field offices of expected future collection problems.

#### Accounting systems approval

In April 1970, the Department's general accounting system was found to be in compliance with the principles and standards prescribed by the Comptroller General. The Department has made substantial revisions in the operation of its accounting systems due to changing missions and goals since 1970. A number of new systems or systems revisions have been implemented without assurance that they are in compliance with prescribed principles and standards. HUD's accounting systems are described in more detail in chapter 3.

The Department has acted to develop accounting systems in several areas to replace the general accounting system. The areas to be supported by these systems are

- community development grants and loans,
- assisted housing,
- administration, and



--mortgage insurance.<sup>3</sup>

In addition, HUD plans to upgrade its accounting systems and request Comptroller General approval. This approval is granted when systems are found to be operating in accordance with prescribed principles and standards. At the time of this review, only the payroll system had been submitted for approval. In November 1982, the Comptroller General determined that the Department's payroll system conformed to the prescribed principles and standards and approved the system's design.

#### INITIATIVES FOR IMPROVING MANAGEMENT SYSTEMS

Recognizing these continuing financial management information system problems, HUD initiated actions to make its systems more supportive of the needs of the Congress and departmental management. These actions included

- studies of accounting procedures and controls, data processing functions, and systems designed to improve HUD management;
- efforts designed to reduce costs through promoting more efficient and effective systems; and
- steps designed to increase accountability and reduce waste, fraud, and mismanagement by implementing improved systems of internal control.

Also, management has recognized a need to better manage the resources which are available for systems development.

#### Recent management initiatives

To determine the actions needed to improve its systems, HUD has hired consultants in automatic data processing and accounting systems. In addition, in-house teams are studying various accounting and management areas. HUD also contacted industry groups and private companies to obtain ideas on management improvements. In a memorandum provided to us by the current Assistant Secretary for Administration, HUD reported that 16 management studies had been completed since June 1981, and 22 studies were underway covering a broad range of areas including information systems, accounting, procurement, and financial management.

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<sup>3</sup>The mortgage insurance business is accounted for through the Federal Housing Administration funds. Although these funds are required to follow generally accepted accounting principles, they are exempted from accounting system approval requirements by the Government Corporation Control Act.

The completed studies were used to provide a basis for important management decisions. For example, the automatic data processing function was reorganized from three offices into one office to assist the Secretary and other top management by providing better data needed to run the Department and at less cost. Another study discussed the need for changes in the way HUD undertook its financial management responsibilities.<sup>4</sup>

HUD management also conserved funds by reducing and simplifying reports produced by current systems. For example, the Assistant Secretary for Administration reported that by streamlining management systems and simplifying reporting, HUD would save over \$2 million in fiscal year 1982 and each year thereafter. Funds saved are available for system modernization efforts.

In addition, HUD has heavily relied on its financial management systems to eliminate fraud, waste, and mismanagement through implementing improved systems of internal control and strengthening accountability. Efforts in this area include

- establishing better and more effective communications between the program offices and the administrative offices;
- educating program participants (e.g., cities, housing managers) on the importance of preventing fraud, waste, and mismanagement;
- emphasizing the use of performance appraisals to establish individual accountability; and
- implementing Office of Management and Budget guidelines by identifying and ranking the areas most susceptible to fraud, waste, and abuse.

In addition, top management has recently initiated actions to develop improved systems to support accounting activities. These actions emphasize increasing use of office automation and having contractors perform selected data processing functions. One action which HUD believes has significant potential involves changing to automated systems currently used in the business world which can be adapted to meet HUD's needs. (See discussion on page 119.)

Another action was designed to improve internal controls in the Office of Finance and Accounting. This project was a cooperative effort by the Office of Administration and the Office of Inspector General. The objectives of this project, initiated in October 1981, were to

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<sup>4</sup>"Financial Management Study", Department of Housing and Urban Development, Office of Administration, Fall 1982.

- establish a systematic approach to identify selected vulnerable accounting systems;
- document existing internal controls; and
- assess the effectiveness of internal controls in preventing fraud, waste, abuse, and mismanagement.

In working toward accomplishing these objectives, the project team performed a vulnerability assessment of HUD's accounting systems and then reviewed selected accounting systems considered vulnerable to fraud and mismanagement. The team issued a report on this project in December 1982.

Efforts of this type will place the Secretary in a better position to report on the adequacy of the Department's internal controls as required by the Federal Managers' Financial Integrity Act (Public Law 97-255). The first report under this act is required by December 31, 1983.

Several external efforts have been or are also underway to study what measures can and should be taken to bring about other improvements. The President's Private Sector Survey on Cost Control has reported on several accounting and financial management areas. In addition, a multiphased government-wide effort, entitled "Reform 88", will address, as one of its four principal concerns, federal budget and financial management systems.

#### Recognized need for system resources management

HUD recently established an office under the Assistant Secretary for Administration with responsibility for automatic data processing. This consolidated the data processing activities of three different offices. The consolidation was designed to create a more efficient organization and place responsibility and accountability for data processing operations at a higher level. In addition, management recognized a need for further action to improve coordination among organizational elements and to improve planning and control of automation resources.

Additional modernization of the Department's information systems will be needed. Many existing systems are obsolete and others will become obsolete because of changes in program emphasis.

Also, changes in HUD's method of operation and organizational alignment will necessitate system changes. For example, HUD plans a protracted effort to identify commercial functions which can be contracted out. This contracting effort will shift resources from work process systems (those most likely to be contracted out) to monitoring and tracking systems (those needed for program management). Another shift is the co-location of area

offices and regional offices. (See chapter 2.) This co-location could ultimately require design changes in automated systems.

### STRENGTHENING SYSTEMS DEVELOPMENT

Although HUD expects the above initiatives to improve the adequacy of its financial management information systems, it recognizes that further improvements are needed. Because of the longstanding nature of this need, we analyzed prior internal and external studies which cited deficiencies in various HUD management information systems. These studies and our review of several HUD systems showed common underlying causes of weaknesses in HUD's management information systems. To eliminate these causes HUD needs to

- create a central direction and focus for development of financial management policies and systems and
- improve its long-range planning to establish improved oversight and control over automated systems.

### Establishing accountability

Financial management decisions are made throughout HUD without the benefit of central control and direction. Financial management responsibilities are shared by most HUD activities, but there is not a single focal point in the organization below the Office of the Secretary with authority or responsibility for providing oversight and coordinating the development of financial policies and systems. As a result, adequate consideration is not always given to the financial impact of policy decisions.

Financial management at HUD is decentralized with most offices sharing responsibilities for financial support activities for program areas. These offices under the various assistant secretaries perform financial management functions and establish financial management policies for their program areas. Because there is no formal relationship or coordination of financial management responsibilities, there is no uniform basis for financial management decisions at HUD. Figure 5-1 and appendix XIV show the dispersion of financial management responsibilities within HUD.

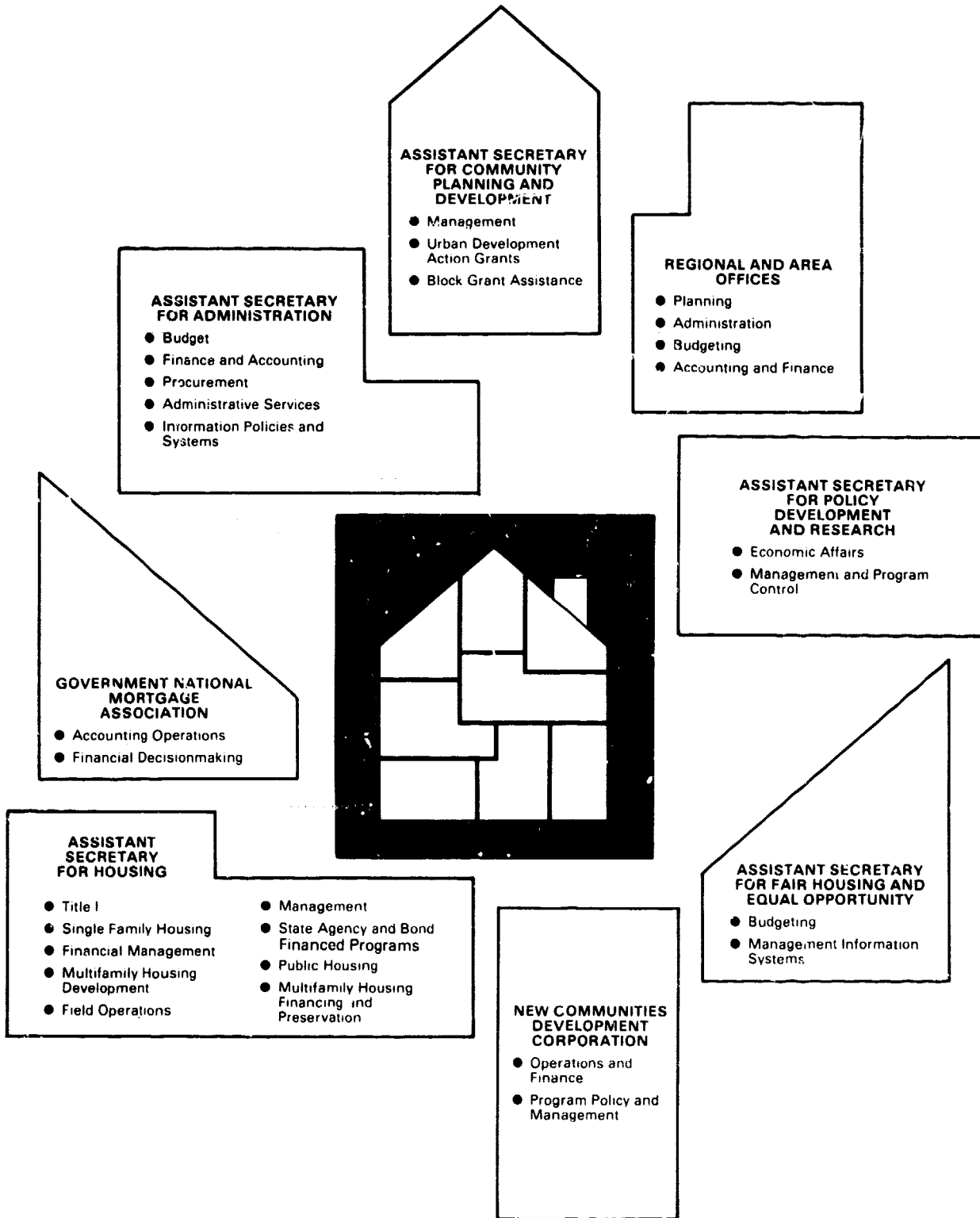
We believe HUD needs to unify its financial management under a management structure which will provide cohesiveness among all HUD activities.<sup>5</sup> This unification can best be accomplished by providing central direction to financial management through

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<sup>5</sup>The location of the Chief Financial Officer in the HUD organization would be determined by the organizational structure adopted. Management's options are discussed in chapter 6.

Figure 5-1

# DISPERSION OF ACCOUNTING AND FINANCIAL MANAGEMENT RESPONSIBILITIES WITHIN HUD



establishing a Chief Financial Officer or Comptroller. This individual would have overall responsibility for financial management policy and would be expected to establish, coordinate, and maintain an integrated plan controlling accounting and financial operations, including development of financial management information systems.

This organizational change would provide a focal point in HUD with organizational oversight and accountability for all financial management activities, including development of modern financial management information systems. Further, this change would help ensure continuation of recent management initiatives designed to restore financial management system integrity through better planning and control of limited data processing resources.

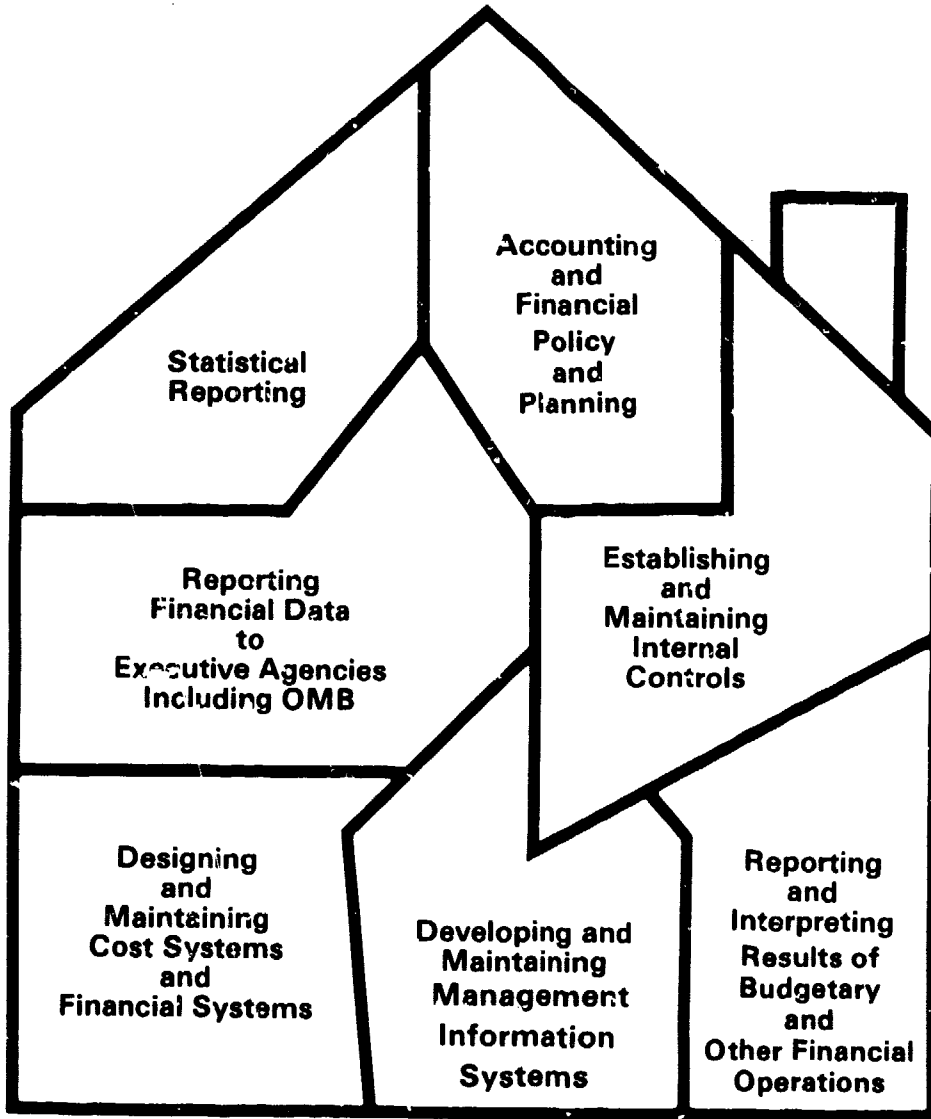
Historically, the large program activities--housing and community development--have established financial policy for their programs and the Office of the Assistant Secretary for Administration has served in a support role. There has been no department-wide focus on financial management policy decisions. Without this central focus or uniform basis for financial management decisions which would be provided by central direction, unsound financial policies have resulted. Problems reported by us and the Inspector General or disclosed during our review illustrates this problem. For example,

- debt collection efforts were impeded by unsound policies which resulted in reduced interest charges for borrowers who defaulted,
- government borrowings were increased by missed opportunities for improved cash management, and
- financial management information systems did not include needed internal controls.

The Chief Financial Officer or Comptroller should be a high-ranking official who could devote continuous attention to carrying out the financial management functions for various HUD programs. The role of this Chief Financial Officer is illustrated by the following figure:

Figure 5-2

**POTENTIAL ROLE OF HUD'S CHIEF FINANCIAL OFFICER**



Among the responsibilities of this individual could be:

1. Establishing, coordinating, and maintaining an integrated plan for the control of accounting and financial operations. Such a plan would provide HUD management with cost accounting data, budget estimates, appropriation controls, etc., along with the necessary procedures to accomplish the plan.
2. Reporting and interpreting the results of financial operations for all levels of management. This function includes the design, installation, and maintenance of accounting and cost systems and records; the determination of accounting policy; and the compilation of statistical records as required.
3. Reporting financial data on HUD operations to government agencies, such as Treasury and OMB.
4. Protecting the assets of the agency. This function includes establishing and maintaining adequate internal controls.
5. Defining data processing goals, setting priorities to achieve these goals, and measuring results through systematic comparative analyses.

This Chief Financial Officer will also need to have a measure of continuity so that designated responsibilities can be carried out in a logical, planned manner. Providing this type of continuity could be achieved if the position is a career-reserved Senior Executive Service position or, if politically appointed, by requiring congressional notification of the reasons for removal as is provided Inspectors General by the law. While the appointment of this individual would not be expected to immediately correct all existing problems with accounting and financial management systems, this appointment would be a significant step in the right direction.

#### Planning system development

The diversity of HUD's data processing operations makes adequate long-range planning essential. Although recognized as essential for system development, HUD does not have an adequate plan for acquiring, managing, and controlling its automation resources. As a result, HUD has not defined its data processing goals and objectives in relation to its changing missions, set priorities to achieve these goals and objectives, and measured results through organized, systematic, comparative analyses. Because HUD has not maintained its planning process, it did not exercise the oversight and control necessary to

- adequately evaluate the relative cost effectiveness (and thus providing a valid basis for allocation of resources) of existing and proposed systems and



--adequately consider user needs and administrative burdens during system development.

During our review, the basic planning process at HUD was related to the budget. (See chapter 3. ' Beyond the budget, we found no long-range goals or objectives for data processing. The most recent long-range plan was in 1978 when HUD initiated efforts to upgrade its central computer facility. This plan was intended to express, in general terms, HUD's requirements for systems, staff, and equipment for the 8-year period beginning in fiscal year 1980. HUD suspended its long-range planning due to budget cuts. A HUD official told us this affected HUD's ability to plan during this time.

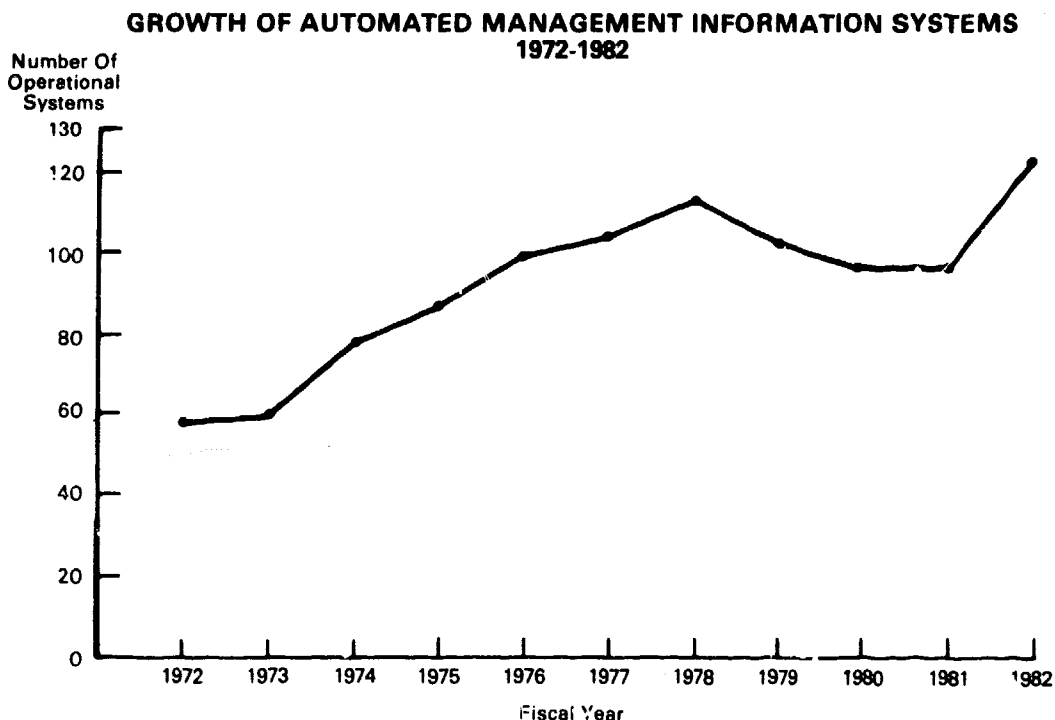
To evaluate the effectiveness of HUD's use of data processing resources, we reviewed 57 automation requirements documents for revising 9 automated systems. This review disclosed that

- 33 of the 57 requirements did not consider costs and benefits;
- 27 of the 57 requirements related to output, such as one-time reports or report format changes;
- little consideration was given to improving input procedures and system efficiency; and
- a data processing program was under development for a housing program for which no funds were requested in fiscal year 1983.

As a result, HUD management did not have assurance that resources were being used most effectively.

The need for a long-range planning process is further demonstrated by the size of the HUD data processing budget and the number of systems in operation at HUD headquarters. The budget was \$31.6 million in 1983. Also, the number of systems in operation has expanded as shown in figure 5-3 on page 132.

Figure 5-3



Source: Office of Assistant Secretary For Administration, HUD

The need for periodic reevaluation of needs as part of the long-range planning process is demonstrated by the following example. In April 1977, HUD determined that the process for underwriting single-family mortgage insurance should be automated. The project was to be completed in 1980 and cost about \$2 million. HUD planned to develop a system to handle insurance applications, including automating the process for property appraisals, mortgage credit analyses, and data interchange with other automated systems. By December 1982, HUD's development costs were about \$7 million with expected future development costs of \$4 million, and HUD had moved to allow appraisals and some other mortgage processing functions to be provided by the private sector. Because HUD's management did not maintain its formal planning process, it did not begin making changes until after the development costs and workload had changed.

A similar situation exists in developing new automated management information systems. Historically, the program activities have developed information systems to meet their needs. However, this dispersion of responsibility has resulted in systems being developed without full consideration of the Department's information needs, and no one can be held accountable when systems do not meet expectations.

Different HUD organizations manage and use computers and related resources such as computer software and personnel for their individual goals and objectives. Although the central data processing office is under the Assistant Secretary for Administration, sizable staffs are also found under the Assistant Secretary for Housing and the Assistant Secretary for Community Planning and Development. For example:

- Housing's Management Information Systems Division has about 70 people that develop housing data systems, operate these data and information systems, and provide technical and management assistance.
- Community Planning and Development's Data Systems and Statistics Division has about 20 people that establish policies, standards, and procedures for systems; identify data requirements for all programs; and administer and evaluate automated system requirements.

Further, the field staffs at the regions and area offices have their own data processing systems. This decentralized management structure, as well as the availability of inexpensive and easy-to-use equipment, has resulted in minicomputer and word processing systems with related software applications being developed at program divisions, regions, and area offices.

For example, HUD's Philadelphia Regional Office acquired a minicomputer that links word processing equipment. Although initially the region will use the system to maintain program files which are now manually maintained, this word processing network provides a capability to automate many functions in the region. Philadelphia's acquisition appears inconsistent with HUD's effort to scale down its teleprocessing plans.

HUD identifies data processing requirements for the budget cycle and controls expenditures through the working capital fund. Both are good central control features. However, there is little central control over the use of personnel to develop computer programs, and headquarters offices have found methods of satisfying their automation needs without obtaining central approval. For example, Housing's Office of Financial Management converted a timesharing system used for financial analysis into a work process system. Also, Office of Administrative Services purchased a programable calculator and used it to automate various job functions.

In May 1982, HUD started a review of the acquisition and use of information processing equipment and began to inventory equipment and software applications. A similar study was performed by the Computer Sciences Corporation for HUD in 1980. The findings of this 1980 study were that equipment was underutilized and incompatible.

In part this problem can be traced to development and use of regionally unique systems. The term "regionally unique" means a system which has been or is being developed in one region, but the functions being automated by the system generally are not unique to the region and can be adopted by other regions. Because HUD lacks control over development of regionally unique systems, there is no assurance that successful regionally unique systems will be shared with other regions or that ineffective or inefficient regionally unique systems will be discontinued.

HUD's installation of a decentralized computer network in the regional and area offices further amplifies the need for long-range planning. This network will consist of minicomputers located in field offices linked together with HUD's central computers via a public communications network. This system will allow users to design programs more closely tailored to their particular applications. The potential for such a system is limited more by its management than by its technology. This system will require better planning to conserve software development resources.

## CONCLUSIONS

If HUD is to satisfy the public's expectation of greater accountability over public funds, financial management systems must be improved. A strong commitment by HUD management will be required if the needed improvements are to be made and if the public's demand for efficient operations is to be met.

The need for this commitment and unified financial management to provide consistency and coherence among all HUD activities is even more urgent in today's changing environment. This belief is supported by the recent passage of the Federal Managers' Financial Integrity Act of 1982 and the Office of Management and Budget's action in issuing Circular A-123.

Overall, we believe that the courses of action discussed in this chapter, in combination with recommendations in other chapters, will assist the Department in developing the financial management information system integrity needed to support management in budgeting, policymaking, and program implementation. Although we recognize that the development of modern financial management systems is a long-range project, we believe that the first steps lie with a long-term approach to solving the underlying causes of system shortcomings.

## RECOMMENDATIONS TO THE SECRETARY OF HOUSING AND URBAN DEVELOPMENT

Because of the need for major changes in the Department's financial management systems, we are making both short- and long-range recommendations. The short-range recommendations can be rapidly implemented without making extensive system changes. These changes should be implemented regardless of the eventual

redesign and automation of the various systems. The long-range recommendations should be implemented to resolve the basic defects which have caused the recurrence of system problems.

For the short-range, the Secretary of the Department of Housing and Urban Development should

- Establish a Chief Financial Officer with clear responsibility and accountability for establishing financial policy and providing a central focus for development of financial management systems.

- Correct internal control weaknesses and other financial management information system problems identified during this review by assuring that:

- The single-family premium collection system and the process for handling cash receipts and disbursements include adequate internal controls.

- Collections are placed under immediate accounting controls.

- Sound cash management practices are followed in handling receipts and disbursements.

- The home improvement loan collection process is streamlined as part of the current automation effort.

For the long-range, the Secretary of the Department of Housing and Urban Development should:

- Move to centralize financial management policy development under the Chief Financial Officer.

- Continue efforts to restore integrity to the Department's financial management information systems by enhancing system internal controls.

- Streamline the processes used to accomplish accounting functions.

- Develop accounting systems which comply with the principles and standards established by the Comptroller General. The objective of this development process should be to establish accounting systems capable of providing timely, accurate, and comprehensive information and serving as a basis for reporting on the adequacy of internal controls as required by the Federal Managers' Financial Integrity Act.

- Enhance financial management information system improvements and future automation by establishing a long-range automatic data processing planning and control process. As

part of this planning and control process, the Secretary should assure that

- existing and proposed automated systems are necessary, feasible, and cost effective and that those systems which cannot perform their intended purpose in a cost effective manner are discontinued;
- user needs and administrative burdens are adequately considered during system development; and
- efforts to develop modern automated systems are continued.

#### AGENCY COMMENTS AND OUR EVALUATION

HUD generally agreed with the need for improved financial management and stated that it has now taken a number of steps along the lines we recommend. These steps include completing a Financial Management Study which addresses many financial management problem areas in headquarters. Also, efforts are continuing to improve internal controls. HUD also stated that we neglected to recognize that its information management systems support program as well as accounting operations.

While we recognize the benefits HUD expects from its improvements to date, we believe the establishment of a Chief Financial Officer is essential to addressing the underlying causes of financial management system problems. Also, as noted in chapter 4 and through the presentation and recommendations in this chapter, we point to the importance of management information systems in the program as well as the accounting operations. In this regard, we specifically point out in this chapter problems HUD has in providing timely, accurate, and meaningful information for managing program operations. Our recommendations for improving financial management systems explicitly incorporate, as one subset, management systems used for program operations.

## CHAPTER 6

### NEW APPROACHES FOR MANAGEMENT

#### CONTINUITY AND ACCOUNTABILITY

Prior chapters have shown that longstanding problems in major management processes and general management functions hinder HUD from efficiently and effectively operating federal housing and community development programs. While the Secretary is aware of many of HUD's problems and has initiated a number of actions to improve the situation, statutory responsibilities and congressional and public duties will continue to require much of his attention. To provide a consistent management focus we see a need to:

- Have top management emphasize and show its commitment to strong managerial leadership.
- Establish accountability for general crosscutting (agency-wide) management functions such as planning, evaluation, and management information system activities.
- Add continuity to HUD's top management team.

We offer three options which address these issues and which the Congress can consider in deciding how to build a framework for a better managed Department. The options are (1) creating the position of Under Secretary for Management, (2) strengthening the role of the Assistant Secretary for Administration, and (3) creating the position of Deputy Under Secretary for Management.

#### THE ROLE OF THE SECRETARY

The Secretary of HUD has many responsibilities and obligations which affect the time he or she can devote to managing the agency. The Secretary's general responsibilities are largely described in Section 3 of the HUD Act. They include:

- supervising and directing the Department;
- advising the President on federal housing, urban development, and fair housing and equal opportunity programs;<sup>1</sup>
- developing and recommending to the President policies for fostering the orderly growth and development of the nation's urban areas;

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<sup>1</sup>The Secretary's responsibilities relating to fair housing and equal opportunity stem largely from the Civil Rights Acts of 1964 and 1968 and the Housing and Community Development Act of 1974.

- exercising leadership, at the direction of the President, in coordinating federal housing, urban development, and fair housing and equal opportunity activities;
- providing technical assistance to states and other units of local government; and
- encouraging private enterprise to help achieve the Department's objectives.

In addition to the above formal responsibilities, the Secretary explains and defends the administration's housing and community development policies and the Department's major management decisions before the many congressional committees having formal oversight responsibilities over or a direct interest in HUD's programs or administrative practices. For example, during calendar year 1982 the Secretary made 14 appearances before congressional committees. Also, the Secretary has many public and political responsibilities which require appearances around the country. In 1982, he took 50 trips, traveling to 35 U.S. cities and 11 foreign cities. In short, the HUD Secretary, like the heads of other agencies, has varied and time-consuming responsibilities.

Recognizing the demands on his or her time, each HUD Secretary brings a different management style and philosophy to the position. Some have devoted more efforts to managing HUD's daily operations, others have stressed policy responsibilities, while others have concentrated on congressional and public relations. All of these activities are important and each can be part of a viable management philosophy if all managerial levels understand the philosophy and function accordingly.

The current Secretary has stated that under his management philosophy he looks to the assistant secretaries to run the agency's day-to-day operations. In a March 1982 letter to HUD employees, the Secretary wrote:

"I have spent and will continue to use the major part of my time and that of my immediate staff in developing new program directions; reviewing and assessing the impact of current programs; defending the Department's budget and programs within the Administration and before Congress; and representing the Department in national and international forums."

The current Secretary's philosophy relies on sound management processes and clear lines of management authority. However, earlier chapters show that HUD's management processes need improvement and lines of authority should be clarified. For example, no one below the Secretary coordinates financial management and planning. This has resulted in these and other general management functions not meeting HUD's internal needs and the needs of the Congress and the public.



Regarding the adequacy of HUD's managerial systems the Under Secretary stated that simple things--such as determining how much debt is owed to HUD or how much insurance HUD wrote in a particular week--are either difficult or impossible to answer quickly. The Under Secretary said that management systems problems prevented HUD from generating timely and reliable basic financial management data vital to successfully operating a large organization.

SOLVING HUD'S MANAGEMENT  
PROBLEMS REQUIRES EMPHASIS,  
ACCOUNTABILITY, AND CONTINUITY

HUD has been confronted with numerous longstanding management deficiencies which will not be reversed in a matter of weeks or months. HUD needs a framework for dealing with lingering problems and for meeting new challenges.

Emphasis on management improvement

The first step to improve management processes and managerial performance is for top management to emphasize its strong leadership role in the agency's operations. HUD, like many large bureaucratic organizations, is organized in a pyramid. HUD's Office of the Secretary, at the apex, establishes major policy initiatives and, through the Secretary's actions and management style, sets the tone for managers and staff performance. This is not to suggest that a Secretary's management style must conform to one which includes overseeing the day-to-day activities of the agency. Rather, the Secretary, through his or her actions and the agency's management processes and systems, communicates commitment, or lack of commitment, to effective and efficient management by (1) explicitly stating the agency's goals and objectives and outlining the Secretary's agenda and priorities for the coming years, (2) delegating specific authority to a single focal point for the Department's general management functions, (3) showing support for improving and using HUD's management systems and processes for decisionmaking, and (4) having a system for holding managers accountable.

Chapter 3 shows that while the Department's priorities have been articulated through operating plans, the priorities were not linked to Secretarial goals and objectives. Also, while the Department's budget is the primary tool the Secretary uses to manage HUD, the budget is not clearly linked to the Secretary's priorities or to other agency management systems. This results in overrelying on budget development for decisionmaking in the absence of an integrated management decisionmaking process. HUD is implementing a new "management plan process" which includes formal statements of Secretarial goals.

We also found that no one has been delegated the authority to oversee the agency's daily operations as they relate to general management functions and that there is only sporadic

use of management systems for decisionmaking. In his March 1982 letter to HUD employees, the Secretary stated that

"...I expect my Assistant Secretaries to run their programs on a day-to-day basis. I do not see myself or my immediate staff getting involved in day-to-day operational decisions."

Our review showed that no one person, including the Under Secretary, has been delegated responsibility to oversee HUD's day-to-day management operations. While the Secretary relies on the assistant secretaries to operate HUD's programs on a daily basis, we found a need for coordinating the efforts of the assistant secretaries to assure that they and HUD's large and complex field network operate harmoniously and effectively carry out the Secretary's priorities. We believe a continuous oversight presence is especially crucial for general management functions. Under the current structure, no one other than the Secretary can be held accountable for HUD's general management functions.

The lack of a management focal point at HUD hampers its ability to work with the Congress. In discussing HUD management issues with staff members of congressional oversight and appropriation committees, we were told that it is difficult to obtain timely and reliable information on HUD programs. For example, a staff person who attempted to obtain specific information on HUD's public housing programs told us that he obtained different data from three HUD headquarters offices. In each case the data was either incorrect or obsolete.

Concerning managerial accountability, HUD's Assistant Secretary for Administration<sup>2</sup> stated that HUD needs to do more to hold the approximately 130 managers in Senior Executive Service accountable for their performance. The Assistant Secretary said that for fiscal year 1981, HUD's Senior Executive Service did not effectively hold agency managers accountable for Secretarial priorities. She said that during fiscal year 1982, HUD took steps to assure that work standards in managers' performance appraisals better reflected fiscal year 1982 Secretarial priorities. She added, however, that HUD still needs to use more quantifiable work standards for HUD managers, especially those in headquarters. One of the objectives of HUD's new management process is to improve Senior Executive Service work standards and to better hold managers accountable for their performance.

Similarly, the Secretary does not have a formal control system to measure the progress of managers who report directly to him. The Secretary told us that in judging the performance of

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<sup>2</sup>The Assistant Secretary is chairman of HUD's performance review board which oversees the agency's Senior Executive Service system.

HUD's political appointees, he relies on feedback he receives from others. In this regard, two assistant secretaries told us that while the Secretary regularly delegates assignments to them, he does not have a formal system to measure progress but expects them to effectively carry out the assignments. Such an informal control system, when coupled with inadequate management systems, hinders managerial effectiveness.

#### Strengthening accountability for and control of management efficiency

The management process should control organizational activities to ensure that an agency's legislative mission is being accomplished. A basic ingredient in a system which measures and controls organizational activity is delegating authority and holding individuals accountable for agreed-upon results. However, our review shows that general management functions such as planning, financial management, and evaluation activities are widely dispersed and uncoordinated and that no one person below the Secretary is accountable, on a daily basis, for assuring efficient and effective performance. While a Secretary could choose to perform this function, policy, public, and political demands compete for the Secretary's time. However, as the head of the agency, the Secretary is accountable for the agency's performance. If a Secretary's management style does not permit sufficient time for this important task, it should be delegated to another top official. A likely candidate is the Under Secretary. However, as the Secretary pointed out in his March 1982 letter and as confirmed by our review, he and his immediate staff concentrate on policy and program development and analysis. The Under Secretary generally does not get involved in overseeing general management functions and is not held accountable for their effectiveness.

Previous chapters presented management problems which point to a need to establish clearer lines of accountability and control. The following table lists the general management functions which we reviewed and the major improvements needed.

## General Management Functions

<u>Function reviewed</u>	<u>Major improvements needed</u>
Budgeting	Need to better link budgeting to other management processes (see ch. 3)
Planning	Need to systematically coordinate agency planning efforts (see ch. 3)
Resource management	Need to reliably project future work force needs and match staffing needs with staffing resources (see chs. 3 and 4)
Program evaluation and monitoring	Need to coordinate evaluation efforts and to use evaluation and monitoring results in decisionmaking processes (see chs. 3 and 4)
Program direction	Need to give HUD's field staffs clear and timely program guidance--handbooks and other issuances (see ch. 4)
Financial management	Need to develop systems which support departmental management; protect against fraud, waste, and abuse; and promote sound financial decisions (see ch. 5)

For example, concerning planning, chapter 3 shows that HUD has no central focal point which directs or even encourages managers to perform this basic management function. In the management information area we found that insufficient attention by HUD top managers has caused lingering problems. Chapter 5 concludes that accountability for management information systems--accounting and program systems--should be placed under a Chief Financial Officer having proven expertise and experience.

Also pointing to a need for more effective accountability is HUD's dispersed evaluative efforts, mentioned earlier. HUD programs and management practices are continually being evaluated by a myriad of internal and external sources. However, no one person or office is responsible for systematically reviewing report findings, conclusions, and recommendations; identifying recommendations to be implemented; and following up on implementation.

The need to hold federal managers accountable has been heightened by two recent legislative initiatives. The most significant is the Federal Managers' Financial Integrity Act of 1982. As discussed in chapter 5, the act calls for an annual statement signed by the agency head, attesting to the effectiveness of the agency's internal controls or, if necessary, outlining a plan and a timetable to strengthen any weaknesses in the controls.

A second initiative is the Paperwork Reduction Act of 1980. A major objective of this act is to establish a single, clear line of accountability within each agency to carry out activities about how the government collects, stores, uses, and disseminates information. In chapter 5 we concluded that the steps HUD has taken to implement the act do not sufficiently strengthen accountability in the area of ADP management.

### Need for continuity

Because HUD's top management team changes frequently, there is the absence of an institutional memory at a high level (1) to comprehend the implications of HUD's longstanding management problems and (2) to provide the authority to effectively deal with them. HUD's records show that since HUD's creation in 1965, the average tenure of the Secretaries and Under Secretaries has been 28 months. For other presidential appointees, such as assistant secretaries and the General Counsel, the average tenure is about 23 months.<sup>3</sup> Figure 6-1 on the following page shows the degree of turnover in each of the top HUD management positions since the agency's inception.

Turnover of HUD's top management team is largely a political phenomenon. Each new administration brings to HUD a new Secretary, Under Secretary, assistant secretaries, regional administrators, and other high ranking agency officials. The new management team brings new policy and program initiatives and a fresh look at the agency's management problems. While this transition and the accompanying new faces and ideas can provide a source of strength to our system of government, people in and outside of HUD told us that it deprives HUD of an institutional memory needed to understand the causes of HUD's longstanding problems and the implications of alternative solutions.

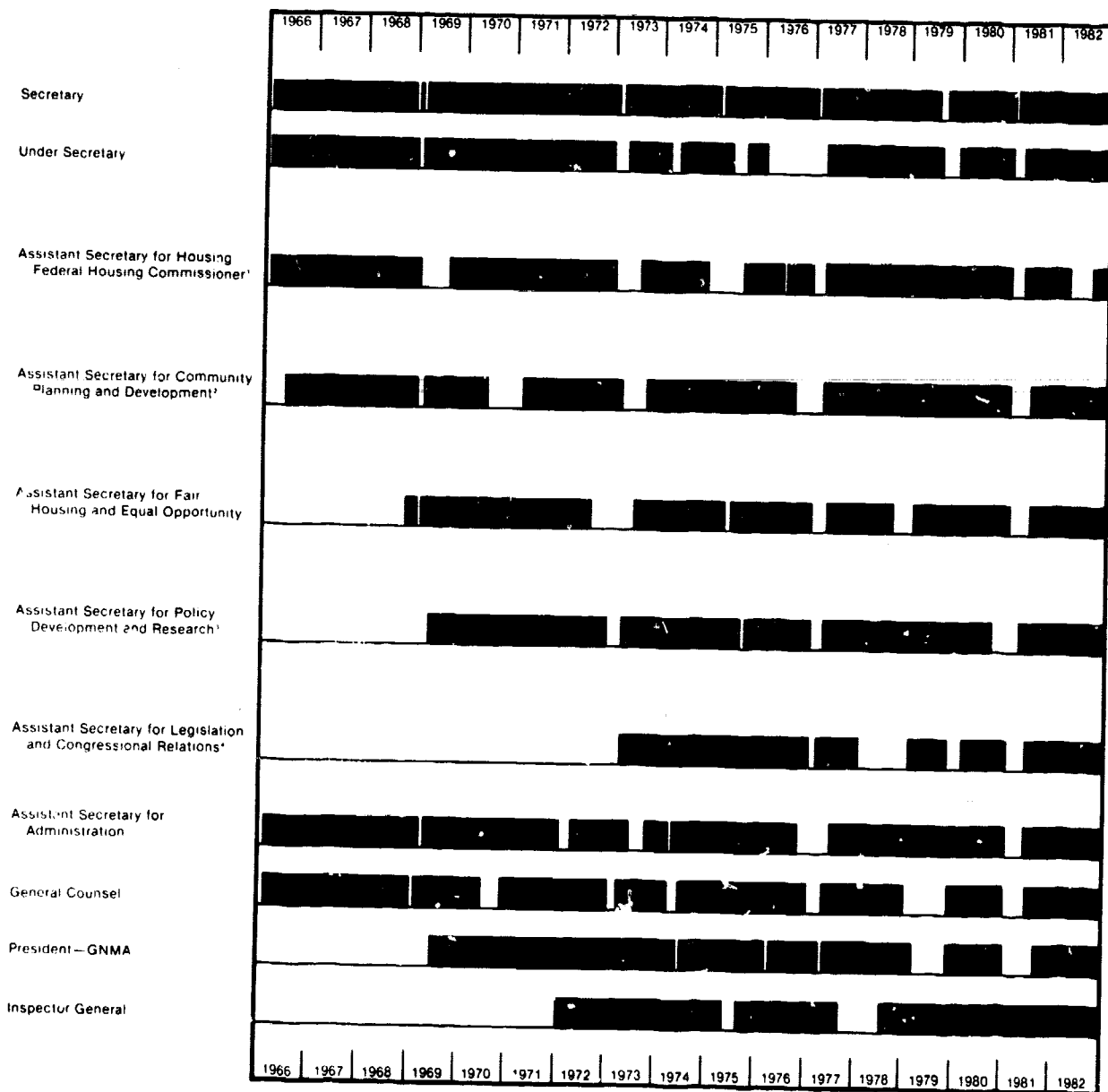
Furthermore, we found turnover is also high among Senior Executive Service staff. For example, recently a key unit in the Office of Finance and Accounting has had 4 directors in an 18 month period. This director is responsible for accounting and financial management relating to major housing and community

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<sup>3</sup>According to an Office of Personnel Management official, because of the time it takes for political appointees to familiarize themselves with the agency and their new positions and the time spent by appointees at the end of a political term searching for a new job, the effective working time of political appointees may be considerably less than actual time in office. Similarly, the President's Private Sector Survey team recently reported that in the 18 years of HUD's existence there have been about 60 assistant secretaries with an average tenure of 18 to 22 months.

**Figure 6-1**

**EXTENT OF TURNOVER AMONG SENIOR POLITICAL APPOINTEES AT HUD 1966 - 1982**



<sup>1</sup>This position was preceded by the Assistant Secretary for Housing Production and Mortgage Credit and the Assistant Secretary for Mortgage Credit

<sup>2</sup>This position was provided by the Assistant Secretary for Renewal and Housing Management and the Assistant Secretary for Renewal and Housing Assistance

<sup>3</sup>This position was preceded by the Assistant Secretary for Research and Technology

<sup>4</sup>This position was preceded by the Assistant Secretary for Legislation and Intergovernmental Relations and the Assistant Secretary for Legislative Affairs

Source: Based primarily on a chronology of HUD's history prepared under HUD contract

development programs. Our review noted that HUD is lagging in developing automated systems in this area.

HUD's Committee on Fraud, Waste, and Mismanagement demonstrates the value of an institutional memory and the problems caused by a lack of continuity in HUD's top management team. In June 1981, the Secretary reestablished the Committee and appointed the Inspector General as chairman.<sup>4</sup> The Inspector General believed that one reason he was selected was that he was the only top level agency official with an institutional memory long enough to appreciate the underlying causes of fraud, waste, and abuse issues at HUD. The Inspector General had been in office for 3 years when the Secretary appointed him chairman and has worked at HUD and its predecessor agency since 1957. All other presidential appointees at HUD--the Secretary, Under Secretary, and assistant secretaries or positions of equivalent stature--had been in office less than 6 months.

Aside from his institutional memory there are other merits in having the Inspector General be on an advisory committee dealing with fraud, waste, and abuse. The Office of Inspector General regularly deals with these areas, and over the years the Office has developed considerable expertise which could help the Secretary formulate policy on curbing or eliminating fraud, waste, and abuse. For example, in December 1982, the Inspector General completed a cooperative effort with the Office of Finance and Accounting to assess the effectiveness of internal controls of selected HUD financial accounting systems.

Upon closer examination, however, having the Inspector General chair the Committee on Fraud, Waste, and Mismanagement may place him in a position which could compromise his independence. Our concern stems from the "independence standard" of our Standards for Audit of Governmental Organizations, Programs, Activities and Functions. Auditors and audit organizations are responsible for maintaining independence so that opinions, conclusions, judgments, and recommendations will be impartial and will be viewed as impartial by knowledgeable third parties. However, the independence of HUD's Inspector General may be questioned because he may subsequently review the adequacy of HUD's fraud, waste, and abuse policies--policies that the Inspector General helped formulate.

On commenting on our draft report HUD said that it fully considered the question of independence when the Inspector General was appointed chairman of HUD's Committee on Fraud, Waste and Mismanagement. HUD added that to ensure that independence is maintained, the Inspector General established a separate office within the Office of Inspector General to handle Committee functions.

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<sup>4</sup>Secretary Pierce was the third HUD Secretary to appoint the Inspector General Chairman of the Committee.

HUD said that the new office is totally separate from the audit and investigative functions of the Office of Inspector General.

We recognize the Department has made efforts to eliminate any question of independence within the Office of Inspector General. However, we believe the issue will continue as long as the Inspector General is chairman of the Committee, given his overall responsibility for performing audits of the economy and efficiency of HUD operations.

Another consequence of frequent turnover of top management is a tendency to concentrate on the shorter term implications of decisionmaking at the expense of examining longer term consequences. This can result in decisions being made which are not in the government's best interest. For example, chapter 3 shows that HUD's decision to promote the voucher system was not based on a long-term analysis of the types of staff skills the Department would need to effectively implement a voucher program. This raises serious questions as to HUD's ability to quickly and efficiently administer a voucher program if the Congress approves the administration's request.

We found a consensus of opinion on the need for continuity in HUD's top management position team but differing opinions on whether and how the need can be satisfied. Officials from government and academia, among others, told us that our political system does not promote continuity, particularly at a level in federal agencies which can be held accountable for results. For example, a former senior OMB official told us that it is desirable to bring continuity to HUD's top management but that political pressures will probably prevent this. Several other public administration experts also agreed that having a careerist in a top HUD position would strengthen institutional memory but that it may be difficult to achieve in our political system. OMB's Deputy Associate Director for Management said that instead of improving management by enhancing managerial continuity, OMB would rather strengthen the role of the position of the presidentially appointed Assistant Secretary for Administration.

Certain a priori arguments have been made for and against the concept of continuity at the top level of a federal agency. However, whether one supports such a concept is largely a function of one's belief in the ability of a federal agency, confronted with political changes, to achieve managerial continuity, or whether one concludes that continuity is maintained by an agency's management processes and mechanisms. For the reasons stated in this report, we believe HUD needs continuity in its top management.

#### OPTIONS FOR MANAGERIAL IMPROVEMENT

Solving HUD's general management problems and uplifting the status of management at HUD will require new initiatives. HUD has too many longstanding problems to suggest that its current managerial framework should not be altered. What is needed are



new initiatives which will emphasize commitment to strong managerial leadership, establish accountability for general management functions, and bring continuity to HUD's top management team. We recognize that there may be many approaches to effectively address these issues. When we talked with public administration experts and senior HUD officials and examined prior government organizational reviews of executive agencies,<sup>5</sup> three options emerged which, in varying degrees, address each of the issues. Figure 6-2 on page 151 compares the three options.

#### Creating an Under Secretary for Management

One option is for the Congress to amend the HUD Act of 1965 and create a second Under Secretary. The position would be filled by a nonpartisan presidential appointee, confirmed by the Senate. This Under Secretary would be accountable by law to the Secretary for developing, maintaining, and integrating HUD's management systems and the general management functions such as management information systems, budgeting, planning, evaluation activities, and resource management. Also, the Under Secretary for Management could be responsible for such staff functions as personnel and procurement. Further, the Chief Financial Officer, recommended in chapter 5, would report to the new Under Secretary.

With this option the Secretary would have two Under Secretaries. The existing Under Secretary would help the Secretary plan, formulate, and implement program policies and defend these policies before the Congress and the public. The proposed Under Secretary would serve as HUD's management focal point. He or she would be the Secretary's principal advisor on agencywide management issues and have the authority to carry out general management functions. Also, by giving these responsibilities to a presidential appointee within the Secretary's office, the Congress would be sending a clear signal to managers that effective management is a legislative priority. By effectively using the new Under Secretary, a Secretary would demonstrate his or her concern for improved management performance.

The new Under Secretary would also be the focal point for evaluating all internal and external reviews of HUD's managerial systems, managerial performance, and general management functions. Similarly, the Under Secretary would periodically assess managerial performance and evaluate the effectiveness and efficiency of major management systems. The Under Secretary would report findings and recommendations to the Secretary and help implement corrective actions.

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<sup>5</sup>Papers Relating to the President's Departmental Reorganization Program, the Executive Office of the President, Feb. 1972.

We recognize that introducing a second Under Secretary to HUD may cause conflict within the organizational structure. However, to minimize potential conflict and assure that the position is filled by a person who could bring a strong management capability to HUD, the proposed amendment could require that the appointee have excellent professional credentials and broad management experience. The legislation's intent, we believe, could be formed to bring a professional management capability to the Office of the Secretary.

This option may not fully address the need for continuity in the HUD management team. We recognize that under our system of government, a position with the authority of an Under Secretary of a Cabinet-level agency would undoubtedly be a political appointee. However, to enhance the prospects of continuity to the position, the amendment to create the position could be styled after Section 3(b) of the Inspector General Act of 1978, which provides that while an Inspector General may be removed from office by the President, the President must communicate the reasons for such removal to both houses of the Congress. Doing this would enhance the prospects of an effective Under Secretary for Management would survive changes in HUD's leadership.

This option is not without drawbacks. First, because of government pay levels, it may be difficult to attract a distinguished professional manager. Second, having other than the traditional type of presidential appointee for a Cabinet-level agency may not be politically acceptable. Our system of government has traditionally placed partisan appointees at the highest level of executive agencies.

A third potential drawback is the cost of reorganizing some HUD headquarters offices. Currently, some of HUD's management functions are assigned to the Assistant Secretary for Administration. However, that position would no longer be needed because the proposed Under Secretary would assume these responsibilities and those other management functions which currently do not have a central focal point, such as planning and management information systems. As mentioned in chapter 2, reorganizations can be disruptive and have an immediate negative impact on productivity. However, a well-planned and executed reorganization, conducted to resolve specific organizational problems, can result in long-term benefits.

Some advantages. This option could clarify lines of authority for general management functions. It would enhance the managerial capacity in the Office of the Secretary and free the Secretary to concentrate on policy initiatives and to represent HUD before the Congress and in other public forums. Further, it would bring some continuity to HUD's top management team.

## Strengthening the role of the Assistant Secretary for Administration

A second option is to strengthen the role of the Assistant Secretary for Administration. The Secretary could delegate to the Assistant Secretary authority to oversee all of HUD's general management functions. Program assistant secretaries and regional administrators would look to the Assistant Secretary for Administration as the focal point for integrating HUD's managerial systems and for assuring efficient and effective performance of agency-wide management functions. Also, the proposed Chief Financial Officer would report to the Assistant Secretary.

This option may not be as effective as the first option in promoting managerial leadership. Unlike the Under Secretary for Management proposed in option one, the strengthened Assistant Secretary for Administration would still operate at the same level as the other assistant secretaries and not in the Secretary's immediate office. This may result in managers taking a "business as usual" approach to management performance and not improving management at HUD. Problems with delegating general management authority to the Assistant Secretary for Administration were discussed in chapter 5. For example, although under the Paperwork Reduction Act the Assistant Secretary was designated accountable for automated data processing, we found that long-range planning inadequacies prevented HUD from (1) defining data processing goals and objectives in relation to its changing mission, (2) setting priorities, and (3) measuring results. Absent good planning, the Assistant Secretary did not adequately oversee and control all of HUD's data processing activities. Furthermore, we found that activities were dispersed among headquarters and field offices, making it difficult for the Assistant Secretary to carry out her responsibilities.

Concerning management continuity for this option, the Congress could amend the HUD Act to what we suggested for an Under Secretary for Management. Along these lines, another way to provide continuity is for the Congress to amend the HUD Act and make the Assistant Secretary for Administration a career reserved Senior Executive Service position, to be filled by a nonpartisan individual. The position of Assistant Secretary for Administration was established by section 4(b) of the HUD Act which provided that, with the approval of the President, the Secretary will appoint an Assistant Secretary for Administration under the competitive civil service. However, the Housing and Community Development Act of 1974 amended section 4(b) so that the Assistant Secretary for Administration is now a presidential appointee, confirmed by the Senate.

Implementing this option would require less reorganization than option one because the Assistant Secretary is, to some extent, the focal point for some general management functions, such as budgeting. However, this option contemplates that the Secretary would delegate to the Assistant Secretary the

authority for all general management functions. To safeguard against an eventual erosion of this authority may require that the Congress amend the HUD Act to specifically empower the Assistant Secretary with these functions.

Concerning qualifications, while the Assistant Secretary is not necessarily selected on the basis of his or her managerial experience and ability, the Congress could add such a requirement to the HUD Act. Similarly, the Secretary could direct the Assistant Secretary to perform agency-wide management reviews and be the focal point to evaluate and follow up on recommendations contained in evaluations performed by others.

#### Creating a career Deputy Under Secretary for Management

A third option is for the Secretary to create the position of Deputy Under Secretary for Management under the present single Under Secretary. Unlike the other options, the Deputy Under Secretary would be advisory and would not have line authority. Thus, the proposed Deputy Under Secretary would serve as an advisor to the Secretary and Under Secretary for management issues and would neither have authority over nor be held accountable for general management functions. Rather, the Deputy Under Secretary would provide HUD's two top executives counsel to balance and integrate judgments on departmental management activities.

The Deputy Under Secretary could be a career reserved Senior Executive Service position, filled with a nonpartisan individual having outstanding managerial ability and experience. Because of the position's career reserved status, the proposed Deputy Under Secretary could serve as the institutional memory for management issues. However, absent the authority to direct HUD's general management function, this option may provide less effective managerial continuity than the other options. This could occur because this option does not meet HUD's need for an institutional memory with the authority to act on longstanding management problems.

This option also may not significantly enhance top management's commitment to strong managerial leadership. While the option places the proposed Deputy Under Secretary in the Secretary's immediate office, it does not provide the position with functional authority over management processes. This potential drawback has some historical precedent at HUD. For a brief period--1975 to 1976--HUD had a Deputy Under Secretary for Management. According to an assistant to the former Deputy Under Secretary, the position was abolished by the Carter administration because there was continual conflict between the Deputy's office and the office of the Assistant Secretary for Administration concerning who was responsible for HUD's resource management systems.

To its credit, however, this option may be more politically acceptable than the first two options because it does not alter

Figure 6-2

## COMPARISON OF PROPOSED OPTIONS FOR IMPROVING MANAGERIAL EFFECTIVENESS

	Creating an Under Secretary for Management	Strengthening the Assistant Secretary for Administration	Creating a Deputy Under Secretary for Management
Clarifies lines of authority	Greatly	To some extent	No
Improves management accountability	Greatly	To some extent	No
Allows Secretary to concentrate more on policy matters	Greatly	To some extent	To some extent
Shows top management's commitment to existing leadership role	Greatly	To some extent	To some extent
Requires reorganization	Yes	To some extent	No
Requires legislative change	Yes	Yes	No
Improves managerial continuity	Yes	Yes	To some extent
Possibly difficult to recruit a qualified individual – due to Government pay scale	Yes	No more than for present staff	No more than for present staff
Allows for agency-wide management reviews	Yes	Yes	Yes
Provides a focal point to interpret and follow up on management reviews performed by others	Yes	Yes	Yes

the responsibilities of HUD's current presidential appointee. Also, within the context of this option, the proposed Chief Financial Officer would report directly to the Secretary. Further, the Secretary could direct the proposed deputy to perform agency-wide management reviews and be the focal point for evaluating and following up on recommendations contained in evaluations performed by others.

This option has the advantage of not requiring legislative change or HUD reorganization, as it leaves the position of Assistant Secretary for Administration unchanged. However, the option does not improve accountability over general management functions or clarify lines of authority because the new position would not have line authority for these functions and therefore could not be held accountable for them.

## CONCLUSIONS

Past evaluations and this review show that HUD faces numerous complex and lingering management problems. There are no easy solutions. However, we believe that if HUD is to make significant progress to improve management effectiveness over the long haul, a strategy is needed which will (1) have top management emphasize and show its commitment to strong managerial leadership, (2) increase accountability for general management functions, and (3) add continuity to the top management team. The strategy should minimize the chance that new, significant managerial problems will develop and inhibit HUD's performance. Further, the strategy should be sufficiently flexible so that it can be compatible with the different management styles each Secretary brings to HUD.

We have described three options for implementing the above management strategy: creating an Under Secretary for Management, strengthening the role of the Assistant Secretary for Administration, or creating a Deputy Under Secretary for Management. The first option is a major departure from HUD's current organizational framework, the second option requires less change, and the third option requires the least. Conversely, as pointed out on figure 6-2, the first option seems to best address the above three elements of a needed HUD management strategy, followed by the second and third options.

The options are mutually exclusive. However, if the Congress creates an Under Secretary for Management but does not add continuity to the position, we see merit in simultaneously creating the position of Deputy Under Secretary for Management. That way the Office of the Secretary will have a professional manager accountable for general management functions and a career civil servant to provide a long-term institutional memory on basic management issues to political appointees.

In deciding whether and how to improve HUD's management structure we see a controversy regarding the appropriateness of a

single senior level agency manager, below the Secretary, with both a degree of continuity and the necessary authority to manage the agency on a daily basis. We believe the controversy will continue until evidence is gathered to show the feasibility and impact of such a position in a Cabinet-Level agency. Without such evidence federal agencies and the Congress are faced with subjective reasoning as their sole directive force. For this reason, we believe the first option--creating an Under Secretary for Management--is particularly attractive. Over time it can provide the Congress with a benchmark for deciding the concept's merits and whether it is applicable to other federal agencies having management difficulties. For HUD, the option's major strength is that it provides to one person, within the Secretary's office, sufficient authority so that he or she can be held accountable for the agency's general management functions. This would allow the Secretary and the present Under Secretary to concentrate on major policy issues and congressional and public responsibilities.

Also, the option can provide a clear signal to managers throughout HUD that top management will play a strong leadership role in improving HUD management. Further, the option offers a degree of management continuity if the Congress styles the proposed position after the Inspector General position.

#### MATTERS FOR CONSIDERATION BY THE CONGRESS

In its deliberations on how to improve HUD's managerial performance, the Congress may want to consider creating the position of Under Secretary for Management, strengthening the role of the Assistant Secretary for Administration, or having the Secretary create the position of Deputy Under Secretary for Management. We recognize that having a non-partisan Under Secretary for Management may be a departure from our traditional political system. However, it offers a new initiative for professionalizing and enhancing managerial leadership and performance at HUD. Creating such a position could also provide a benchmark for the Congress to use when considering ways to improve management in other federal agencies.

#### AGENCY COMMENTS AND OUR EVALUATION

HUD generally agreed with our conclusion that there needs to be an increased level of accountability for HUD's general management functions and for overseeing the Department's day-to-day management operations. HUD stated that it "...needs a single top-level executive responsible for management resources and for ensuring that program officials are aware of management concerns." Regarding our three options, HUD stated that it favors strengthening the role of the Assistant Secretary for Administration and increasing the involvement of the existing Under Secretary in day-to-day activities relating to the overall management of the Department. HUD said it proposes strengthening the role of the Assistant Secretary for Administration because that person is

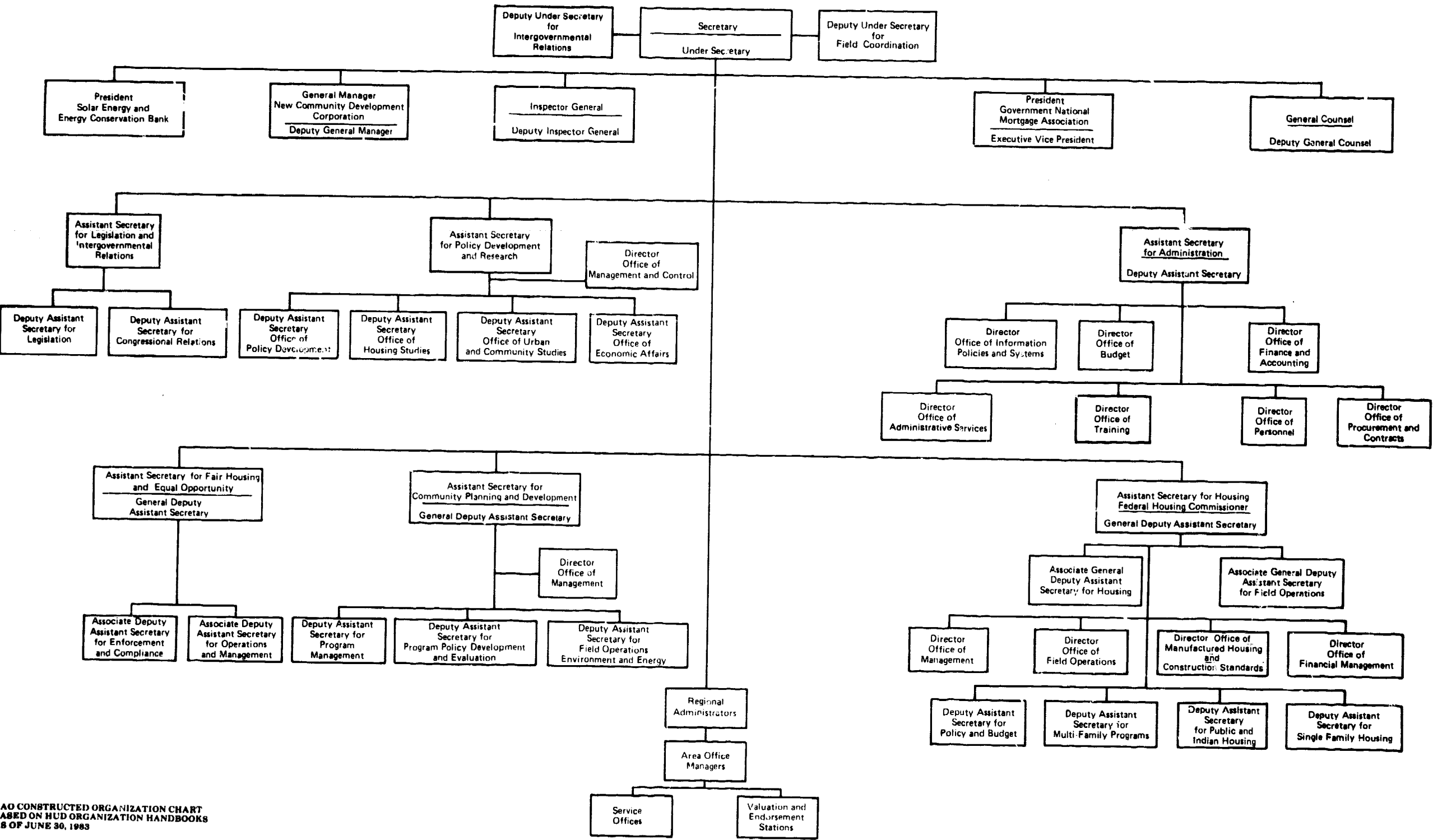
responsible for operating HUD's financial and management support systems.

HUD's suggestion is similar to our second option. As we pointed out earlier, strengthening the role of Assistant Secretary for Administration has its advantages and disadvantages. While it would require relatively little reorganization, it will likely prove to be less effective than option one in resolving the difficult issues of managerial commitment and accountability. Further, using the Assistant Secretary and the present single Under Secretary may result in a "business as usual" approach to management improvement.

Concerning our conclusion that HUD needs to add continuity to its top management team, HUD stated that the "designation of a Chief Financial Officer who would report to the Assistant Secretary for Administration would provide the critically needed continuity in the Department's senior financial management ranks." While we recommend that HUD establish a Chief Financial Officer (see ch. 5), we believe that the need for top level managerial continuity at HUD will not be sufficiently addressed unless continuity is also added to the apex of HUD's management team. It is largely for this reason that we believe that our option one--creating a non-partisan Under Secretary for Management--offers more promise, over the long-term, for professionalizing and enhancing managerial performance at HUD.



DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT ORGANIZATION CHART



GAO CONSTRUCTED ORGANIZATION CHART BASED ON HUD ORGANIZATION HANDBOOKS AS OF JUNE 30, 1983

**MISSING**

**PAGE (S)**

LIST OF GAO AND HUD/OIG REPORTS  
REVIEWED FOR IDENTIFICATION OF  
DOCUMENTED PROBLEMS

GAO Reports Reviewed:

- "VA and HUD Can Improve Service and Reduce Processing Costs in Insuring Home Mortgage Loans"; 6/11/82; AFMD-82-15
- "Duplicative and Unnecessary Renovations Made in the HUD-Subsidized Concord Commons Apartments in Rockford, Illinois"; 4/15/82; CED-82-67
- "District Could Get More for Urban Renewal Property, but HUD Debt Will Be Repaid"; 3/8/82; GGD-82-32
- "Greater Use of Innovative Building Materials and Construction Techniques Could Reduce Housing Costs"; 2/18/82; CED-82-35
- "Contributing Causes of Financial and Management Problems in Public Housing Projects"; 1/8/82; CED-82-31
- "Defaulted Title I Home Improvement Loans--Highly Vulnerable to Fraud, Waste, and Abuse"; 12/7/81; AFMD-82-14
- "HUD's Oversight of Procurement by Public Housing Authorities Needs Strengthening"; 9/30/81; PLRD-81-68
- "More Can Be Done To Measure HUD's Success in Using Millions of Dollars for Rehabilitating Housing"; 7/14/81; CED-81-98
- "Analysis of HUD Efforts To Alleviate Housing Abandonment"; 6/25/81; CED-81-130
- "Weaknesses in the Planning and Utilization of Rental Housing for Persons in Wheelchairs"; 6/19/81; CED-81-45
- "HUD Should Strengthen Mortgagee Monitoring To Reduce Losses"; 6/9/81; CED-81-108
- "New-Home Buyers and Federal Agencies Benefit From Improved Warranty Protection"; 5/26/81; CED-81-40
- "Lenient Rules Abet the Occupancy of Low-Income Housing by Ineligible Tenants"; 4/27/81; CED-81-74
- "How To House More People at Lower Costs Under the Section 8 New Construction Program"; 3/6/81; CED-81-54

- "Further Actions Needed To Improve Management of HUD Programs";  
2/26/81; CED-81-41
- "HUD Not Fulfilling Responsibility To Eliminate Lead-Based Paint  
Hazard in Federal Housing"; 12/16/80; CED-81-31
- "Evaluation of Alternatives for Financing Low- and Moderate-Income  
Rental Housing"; 9/30/80; PAD-80-13
- "More Improvements Can Be Made in HUD's Research and Technology  
Activities"; 8/29/80; CED-80-134
- "Analysis of Community Development Block Grant Drawdown Rates";  
8/20/80; CED-80-137
- "Problems in Implementing the Department of Housing and Urban  
Development's New Payroll System"; 7/22/80; FGMSD-80-72
- "Section 8 Subsidized Housing--Some Observations on Its High  
Rents, Costs, and Inequities"; 6/6/80; CED-80-59
- "Chicago Housing Authority Needs To Improve Its Management and  
Controls Over Purchasing"; 4/28/80; CED-80-93
- "Ways of Providing a Fairer Share of Federal Housing Support to  
Rural Areas"; 3/28/80; CED-80-1
- "Better Cash Management Needed in HUD's Section 312 Housing  
Rehabilitation Loan Program"; 3/28/80; CED-80-74
- "The College Housing Loan Program: More Effective Management  
Needed"; 3/26/80; CED-80-75
- "Criteria for Participation in the Urban Development Action Grant  
Program Should Be Refined"; 3/20/80; CED-80-80
- "Delays in Implementing the Department of Housing and Urban  
Development's Accounting System for Its Mortgage Insurance  
Program"; 3/4/80; FGMSD-80-37
- "What Have HUD and EPA Done To Deal With High Radiation Levels in  
Two Montana Cities?"; 2/8/80; CED-80-63
- "Analysis of Multifamily Assigned Mortgages"; 1/16/80; CED-80-43
- "HUD Should Improve Its Management of Acquired, Formerly  
Subsidized Multifamily Projects"; 12/19/79; CED-80-31
- "Urban Homesteading: A Good Program Needing Improvement";  
11/13/79; CED-80-3

- "Rental Housing: A National Problem That Needs Immediate Attention"; 11/8/79; CED-80-11
- "Serving a Broader Economic Range of Families in Public Housing Could Reduce Operating Subsidies"; 11/7/79; CED-80-2
- "Housing Leased to Lower Income Persons: Better Federal Guidance and Management Could Improve Quality"; 10/30/79; CED-80-7
- "Weaknesses in Servicing and Accounting for Home Mortgages Held by HUD"; 8/16/79; FGMSD-79-41
- "Review of Selected Contracts Awarded by the Cincinnati Service Office, Department of Housing and Urban Development"; 4/12/79; CED-79-67
- "What Was the Effect of the Emergency Housing Program on Single-Family Housing Construction?"; 11/21/78; CED-78-155
- "HUD's Determination to Convert From Industry to Government Operation of the National Flood Insurance Program"; 5/31/78; CED-78-122
- "Internal Audit of Financial Operations in the Department of Housing and Urban Development"; 4/12/78; FGMSD-78-25
- "HUD Needs To Better Assess Financial Soundness of Multifamily Residential Projects Before Insuring Them"; 3/29/78; CED-78-70
- "An Assessment of the Department of Housing and Urban Development's Experimental Housing Allowance Program"; 3/8/78; CED-78-29
- "Section 236 Rental Housing: An Evaluation with Lessons for the Future"; 1/10/78; PAD-78-13
- "Implementation of Revised Section 235 Homeownership Program"; 11/23/77; CED-78-16
- "Need for Fairer Treatment of Homeowners' Claims for Defects in Existing Insured Homes"; 7/27/77; CED-77-97
- "Department of Housing and Urban Development Could Be Streamlined"; 6/16/77; FPCD-77-56
- "Major Changes Are Needed in the New Leased-Housing Program"; 1/28/77; CED-77-19
- "Why the Formula for Allocating Community Development Block Grant Funds Should Be Improved"; 12/6/76; CED-77-2

"Operation Breakthrough: Lessons Learned About Demonstrating New Technology"; 11/2/76; PSAD-76-173

HUD/OIG Reports Reviewed:

Office of Inspector General Report to the Congress for the Six Month Period; October 1, 1981 to March 31, 1982

Office of Inspector General Report to the Congress for the Six Month Period; April 1, 1981 to September 30, 1981

Office of Inspector General Report to the Congress for the Six Month Period; October 1, 1980 to March 31, 1981

Office of Inspector General Report to the Congress for the Six Month Period; April 1, 1980 to September 30, 1980

Office of Inspector General Report to the Congress for the Six Month Period; October 1, 1979 to March 31, 1980

Office of Inspector General Report to the Congress for the Six Month Period; April 1, 1979 to September 30, 1979

Office of Inspector General Report to the Congress for the Six Month Period; October 1, 1978 to March 31, 1979

EXAMPLES OF MANAGEMENT PROBLEMSREPORTED BY GAO AND HUD/OIGManagement area and program effectsOrganizational Structure

HUD's three-tiered organizational structure created red tape, slow service, and incapacity to control losses (FPCD-77-56, June 16, 1977)

Planning and Policy Development

Inequities in the block grant program caused by weaknesses in the formula that allocates billions (CED-77-2, Dec. 6, 1976)

Greater financial risk was created because HUD underwriters did not adequately estimate revenues and expenses before insuring certain projects (CED-78-70, Mar. 29, 1978)

HUD allowed certain principals to participate in HUD programs without correcting deficiencies in connection with prior participation because procedures did not provide for field staff evaluation of prior participation (OIG Semi Annual Report Oct. 1, 1979 to March 31, 1980)

Unclear regulations resulted in higher program costs because unnecessary luxury items were included in section 8 (subsidized housing) projects (CED-80-59, June 6, 1980)

Ineligible communities could participate in the Urban Development Action Grant Program because the selection criteria are based on poor data and questionable assumptions (CED-80-80, Mar. 20, 1980)

Failure to provide a fair share of federal housing programs to rural areas due to inadequate consideration of the financial needs of rural residents (CED-80-1, Mar. 28, 1980)

More effective use of research funds possible by actively involving program staff in planning and managing projects (CED-80-134, Aug. 29, 1980)

Excessive HUD subsidy payments in certain multifamily projects due to project's use of mortgage proceeds for operating expenses (OIG Semi Annual Report Oct. 1, 1980 to March 31, 1981)

Potential failure to provide program benefits to eligible new-home buyers because availability of the federal structural defect compensation program is not adequately disclosed (CED-81-40, May 26, 1981)

Improved HUD policies to stimulate use of innovative building materials could help reduce housing costs (CED-82-25, Feb. 15, 1982)

### Monitoring Field Offices and Program Participants

Lack of cost control at acquired, formerly subsidized projects because reasonable cost standards were not established (CED-80-31, Dec. 19, 1979)

Community Development Block Grant funds were not effectively used because monitoring was inadequate and grantees held funds in excess of needs (CED-80-137, Aug. 20, 1980)

Seriously delinquent mortgages were not in foreclosure or under current workout arrangements due to HUD's slow actions (CED-80-43, Jan. 16, 1980)

Continuing health hazards from lead-based paint in federal housing because of a lack of central responsibility for program monitoring and poor regulations (CED-81-31, Dec. 16, 1980)

Excessive construction costs in the "turnkey" public housing programs (OIG Semi Annual Report April 1, 1981 to September 30, 1981)

Overcharges of \$173,000 in the initial year of a project's participation in the Section 8 Existing Subsidized Housing Program (OIG Semi Annual Report Oct. 1, 1980 to March 31, 1981)

Losses due to inadequate monitoring of lenders participating in the Single-family Mortgage Insurance Program (CED-81-108, June 9, 1981)

Unnecessary federal housing renovation expenses because HUD did not properly review and evaluate proposed renovations (CED-82-67, April 15, 1982)

Inadequate HUD involvement in monitoring public housing authorities (PHAs) and providing technical assistance were identified as central factors in poor PHA management (CED-82-31, Jan. 8, 1982)

### Communication or Guidance

Reduced quality in Section 8 Existing Subsidized Housing Program because of poor guidance to administrators on standards and inspection practices (CED-80-7, Oct. 30, 1979)

Collections were reduced on HUD-held home mortgages because guidance provided to field offices was inadequate (FGMSD-79-41, Aug. 16, 1979)



Improvements could be made in the Urban Homesteading Program if HUD worked more closely with local officials and more closely monitored homestead property (CED-80-3, Nov. 13, 1979)

Higher program costs resulted because rent increases in section 8 projects were not properly evaluated (CED-81-54, Mar. 6, 1981)

Weaknesses in procurement practices not identified because of inadequate reviews of housing authorities (PLRD-81-68, Sept. 30, 1981)

Problems have continued for over 10 years in the leadbased paint poisoning prevention program due to lack of coordinated effort to followup on known problems (OIG Semi Annual Report April 1, 1981 to September 30, 1981)

Less effective use of subsidized housing designed for persons in wheelchairs because of poor HUD guidance to project managers (CED-81-45, June 19, 1981)

#### Enforcement or Compliance

Millions of dollars in title I home improvement loans were not collected because collection efforts received limited emphasis by management (AFMD-82-14, Dec. 7, 1981)

Improper use of funds resulted when hundreds of section 8 units were occupied by ineligible tenants (CED-81-74, April 27, 1981)

Losses due to unreasonable and improper charges to the Community Development Block Grant Program (OIG Semi Annual Report Oct. 1, 1980 to March 31, 1981)

Improper construction in 16 multifamily housing projects (OIG Semi Annual Report April 1, 1981 to September 30, 1981)

Excessive holding costs on acquired housing properties before reselling them (OIG Semi Annual Report April 1, 1980 to September 30, 1980)

#### Training or Staffing

Health hazards to certain residents in two cities because federal officials received little or no training to identify hazardous substances in residences (CED-80-63, Feb. 8, 1980)

Poor management of subsidized housing programs due to inadequate staffing to evaluate project applications, construction activities, and operations (PAD-80-13, Sept. 30, 1980)

Poor staff training delayed the implementation of a new payroll system (FGMSD-80-72, July 22, 1980)

Inadequate reviews of multifamily project financial statements due in part to insufficient training of loan specialists resulted in probable diversions of project funds (OIG Semi Annual Report April 1, 1980 to September 30, 1980)

Property disposition practices were not adequate because many employees were not properly trained or used (OIG Semi Annual Report April 1, 1981 to September 30, 1981)

### Financial Management

Losses due to poor cash management practices in the Section 312 Housing Rehabilitation Program (CED-80-74, Mar. 28, 1980)

Information systems were not adequate to support mortgage insurance programs (OIG Semi Annual Report Oct. 1, 1979 to March 31, 1980)

HUD's year-end closing statement may not present fairly the cumulative obligations of the Annual Contribution for the Assisted Housing Fund (OIG Semi Annual Report April 1, 1980 to September 30, 1980)

Accounting problems and potential losses due to a \$60 million difference between Federal National Mortgage Association and HUD accounting records in the Section 312 Program loan balances (OIG Semi Annual Report April 1, 1980 to September 30, 1980)

Adequate data systems were not established to facilitate evaluation of HUD's success in using millions to rehabilitate housing (CED-81-98, July 14, 1981)

Title I single-family home improvement loans were vulnerable to fraud, waste, and abuse because of accounting weaknesses (OIG Semi Annual Report Oct. 1, 1979 to March 31, 1980)

LIST OF ORGANIZATIONS FROM WHICH  
INFORMATION WAS OBTAINED

American Association of Homes for the Aging  
American Federation of Government Employees  
AFL-CIO  
American University  
Arthur Young and Company  
British Embassy  
Council on States and Communities  
Council on State Housing Agencies  
Farmers Home Administration  
Federal Home Loan Bank Board  
George Washington University  
Housing Assistance Council  
Mortgage Bankers Association  
National Academy of Public Administration  
National Association of Counties  
National Association of Homebuilders  
National Association of Housing and Redevelopment Officials  
National Governors Association  
National Housing Conference  
National League of Cities  
National Low-Income Housing Coalition  
National Rural Housing Coalition  
Office of Management and Budget  
Office of the President

Russell Sage Foundation

Rutgers University

Syracuse University

The Brookings Institution

The Urban Institute

U.S. Conference of Mayors

U.S. Treasury Department

University of Connecticut

University of North Carolina

GAO CONSULTANTS FOR THIS REVIEW

Thomas G. Cody, President, Thomas Cody and Associates

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DETAILED DESCRIPTION OF METHODOLOGY

To accomplish our objectives we initially studied the functioning of HUD's management and management systems within the traditional components described in management literature--organizing, planning, budgeting, directing, evaluating, and controlling. We analyzed the legislative background and policies underlying HUD programs, prior internal and external reviews, and management and program delivery systems, including supporting accounting and financial management information systems. During the initial stages information was gathered by reviews of reports, policies, regulations, and procedures and through structured interviews with HUD officials at headquarters and field offices, former HUD officials, congressional staff, and individuals outside of HUD having an interest in HUD programs. We also analyzed information from congressional hearings and reports.

This approach provided us with a large number of management issues and concerns. To consolidate this data, we developed a technique for summarizing and categorizing data using a Brookings Institute computerized data base system. The resulting summary analysis categorized the data into 16 functional areas and 3 program areas.

Further analysis and evaluation of this data provided a basis for identifying common, persistent, and relatively significant management issues. Based on this analysis we then divided our work into the following major processes:

- policy development,
- budget,
- work measurement,
- financial management,
- program delivery, and
- program evaluation.

In addition to these major management processes, we pursued two additional major areas, one dealing with HUD's organizational structure and another covering HUD's previously acknowledged problems and external influences.

POLICY DEVELOPMENT PROCESS

Our understanding of how policy originates and moves through the HUD organization was gained through extensive interviews with top management officials, including the Secretary, Under Secretary, and assistant secretaries. We tested the effectiveness of the process by concentrating our analysis on two current policy

proposals--the deliberations concerning the retention of the Urban Development Action Grant Program and a proposed housing vouchers program. We selected these initiatives because they were large or potentially important programs and the policy analysis process was complete. In analyzing these policy decisions, we examined issue papers which HUD staff prepared for the Secretary and interviewed the Secretary and his key staff who were involved in the policy development process.

#### BUDGET PROCESS

In assessing the Department's budget process, we looked at the procedures used for developing the fiscal years 1982 and 1983 budgets. The process was analyzed in terms of (1) major events (e.g., program submissions to the central budget office), (2) decision points (e.g., Secretary's final decisions on budget submission to OMB), and (3) timing in relation to other internal management processes (e.g., policy development). In assessing budget controllability and full disclosure of costs, we looked at budget practices (e.g., use of permanent contract authority) and funding techniques (carryovers of unobligated balances of budget authority).

#### WORK MEASUREMENT PROCESS

The work measurement process is normally used to establish and allocate staff to work force needs. However, during our study, HUD's system was inoperative pending major revision. Therefore, our review was directed to comparing the current system with the proposed system.

Our comparison was restricted because details on the proposed system were limited to a proposed concept paper. We obtained and evaluated studies and analyses of the present system prepared by HUD staff and an October 1982 concept paper on the proposed system prepared by the Assistant Secretary for Administration. We also interviewed system managers and users in headquarters and field offices to gain a perspective of problems associated with the current system.

#### FINANCIAL MANAGEMENT PROCESSES

Our approach to reviewing financial management information systems was designed to evaluate the

- control and acquisition of automated hardware and software systems;
- management of information systems;
- utility, timeliness, and accuracy of data produced by the systems' and

--internal accounting controls in place to protect resources against fraud, waste, and mismanagement.

After ascertaining the process used to acquire hardware and software and the process used to approve and develop management information systems, we judgmentally selected four automated management information systems for detailed analysis and analyzed 57 justifications to support software development. The four management information systems we analyzed--the office of loan management system, the computerized underwriting processing system, the public housing authority operating statement system, and the multifamily insured and direct loan information systems--were selected because they are large systems and represent substantial investment of HUD resources to design and operate. We also reviewed HUD's data processing plan, cost benefit studies, alternative analyses, and current and historical data on computer usage. We evaluated HUD's efforts against the standards set forth in the Paperwork Reduction Act of 1980 and not in relation to the performance of other agencies.

We examined the internal accounting controls for the collection of single-family insurance premiums, and for receipts and disbursements by headquarters. We selected the single-family insurance premium system because it is an important subsystem and is further developed than most of the 15 revised subsystems planned for the mortgage insurance accounting programs. We limited our analysis of internal controls over receipts to headquarters where more than \$1 billion was collected and deposited in the Treasury in fiscal year 1982. In addition, we evaluated cash disbursements for several large programs, including expenditures for the HUD-owned multifamily properties. We also considered the impact of accounting subsystems under development for the Title I Program.

We supplemented these efforts by reviewing recent GAO and Inspector General reports that relate to financial management information systems to provide an overall perspective on problems identified in these areas.

#### PROGRAM DELIVERY PROCESS

Our review was designed to evaluate the effectiveness with which HUD headquarters and field office program managers direct and control the program management process. The management activities that we evaluated included how the Secretarial priorities and program plans were implemented and used to monitor field office performance.

We reviewed internal reports relating to program delivery, such as performance evaluation reports on field office visits by headquarters staff, to assess program implementation and analyzed recent Inspector General reports. For several programs such as Small Cities Block Grants, we studied the overall delivery process



and procedures, including discussions with various field managers and evaluation of the program delivery handbooks and performance reports. We also evaluated the timeliness and quality of the program handbooks and directives that provide guidance to the field staff.

As part of our visits to HUD regional and area offices, we evaluated the process that the HUD field staff uses to establish program delivery goals and to measure the extent that these goals are attained. We focused on several program areas in the Housing Division and the Community Planning and Development Division.

Through field and headquarters interviews and analysis of internal reviews and audits, we evaluated the quality and effectiveness of the staff training process and the support provided to the field staff by HUD's management information systems. We also evaluated the process the field staff used to monitor program grantees to ensure that HUD funds were properly spent and program guidelines were complied with.

#### PROGRAM EVALUATION PROCESS

Our review focused on the program evaluation process as it related to the management process. We discussed this process with HUD evaluation groups under the Assistant Secretaries for Housing, Community Planning and Development, Fair Housing and Equal Opportunity, Policy Development and Research, and the Office of the Inspector General. These groups were requested to complete a questionnaire to update their program evaluation activities since 1980. Similar information was previously obtained as part of GAO's government-wide report on federal program evaluation activities entitled A Profile of Federal Program Evaluation Activities, Special Study 1; September, 1982. In addition, we considered GAO reports on federal agency evaluation activities and program evaluation literature.

#### ORGANIZATIONAL ISSUES

Our analysis of organizational issues was designed to evaluate the effect shifting housing policies and program delivery needs may have on HUD's organizational structure. We analyzed the evolution of HUD's organizational structure and the problems with this structure. We obtained and analyzed various reports by GAO, HUD staff, and contractor reports and external studies on HUD's present organizational structure; reorganizations that have occurred; and related organization issues we observed during our review. We discussed these issues with HUD staff and knowledgeable private housing officials to consider the effect of changing housing policies on organizational needs of HUD and other federal agencies with housing programs.

KNOWN PROBLEMS AND  
EXTERNAL INFLUENCES

Our review was designed to determine the HUD management problems that have been documented in the past and management's response to such problems. We also wanted to identify external factors which influence HUD's management process.

We conducted a search of GAO reports and staff studies relating to HUD program delivery issued from January 1976 to September 1982. We found 291 reports and staff studies relating to HUD. Of these, we judgmentally selected 71 reports for detailed review and found 48 reports that identified management problems at HUD during the last 6 years. We also reviewed all 7 semi-annual HUD/OIG reports (required by the Inspector General Act of 1978, Public Law 95-452) issued to the Congress from October 1978 to March 1982 that summarized management problems identified by individual Inspector General reports. We categorized these problems, identified by GAO and HUD's OIG, by management process or functions as appropriate. Through discussions with HUD management officials we obtained information on several initiatives that are designed to improve management accountability, such as efforts to prevent fraud, waste, and mismanagement.

While the social and economic external factors affecting HUD may be infinite, we recognized their impact on HUD management. We obtained information on these factors from past reports and discussions with knowledgeable housing officials.

ORGANIZATIONAL HISTORY OF HUD

Prior to the creation of HUD as a Cabinet-level agency, housing and community development initiatives were carried out under the patronage of several separate and independent federal entities. These activities evolved over time as a result of a series of congressional actions which were manifested by a growing national concern over problems of housing and urban development.

PRE-HUD CENTRALIZATION OF HOUSING AND URBAN ACTIVITIES

A major effort to bring separate entities under the aegis of one principal activity culminated in 1947 when the Congress approved a reorganization plan which brought into being the Housing and Home Finance Agency (HHFA).

The roots of HUD as an overseer of housing and community development activities began to take form when HHFA assumed jurisdiction over the following.

Federal Housing Administration (FHA) - insures loans for repair and modernization and mortgages for purchase or construction of homes and multifamily rental housing.

Urban Renewal Administration - responsible for programs directed to slum clearance, urban rehabilitation, and redevelopment. Programs are carried out through grants, loans, and advances for planning and execution of urban renewal projects.

Public Housing Administration - administers a low rent housing program supported by government loans and annual federal contributions.

Community Facilities Administration - provides loans to educational institutions for student and faculty housing and loans to hospitals for nurses and intern housing. Also provides loans to local governments to finance needed public works and planning advances for future public works.

Federal National Mortgage Association - buys and sells FHA-insured loans and Veterans Administration (VA)-guaranteed mortgages in the secondary market to promote liquidity of such investments and improve the distribution of investment capital available for residential mortgage financing.

After HHFA was formed, several major programmatic and policy shifts occurred emphasizing expansion of housing activities and new directions in urban development, specifically slum clearance and urban renewal. These changes, however, revealed shortcomings in HHFA as the federal entity responsible for supervising and coordinating housing and community programs. Specifically, major

concerns were that HHFA units operated in a semiautonomous fashion and that the HHFA Administrator lacked clout to reorganize agency functions and did not have full line authority over constituent activities. Also at issue was the lack of a central force which would serve as the federal focal point and single authoritative source responsible for housing and community development.

Congressional concern over the need for a Cabinet-level Department as a primary instrument for articulating policy and executing legislatively mandated programs was manifested when HUD was established as a Cabinet-level department in 1965. In enacting Public Law 89-174, the Congress declared that the establishment of an executive department is necessary to carry out the principal programs of the federal government which provide assistance for housing and for the development of the nation's communities.

The initial HUD organizational framework constituted the program-related activities of HHFA's constituent agencies but was aligned under four assistant secretaries who were responsible for executing specific programs. Alignment of headquarters and field structure for program delivery during the initial operating period largely reflected the semiautonomous structure of the former HHFA units. These organizational concepts remained more or less intact until a major HUD reorganization in 1969.

#### EVOLVING CHANGES AT HEADQUARTERS LEVEL

From the initial organizational framework, HUD headquarters expanded into a multifaceted structure encompassing seven assistant secretaries, a Deputy Under Secretary for Field Coordination, a separate Office of Inspector General, and three government corporations: the Government National Mortgage Association, the New Community Development Corporation, and the Solar Energy and Energy Conservation Bank.

The first Secretary of HUD established the initial areas of responsibility as follows. An Assistant Secretary for Mortgage Credit, also designated as the Federal Housing Commissioner, assumed, in total, functions and programs responsibilities of FHA. Two assistant secretaries split responsibilities for directing major urban programs. One, an Assistant Secretary for Renewal and Housing Assistance, focused on programs affecting central cities, including low-rent public housing programs; another, an Assistant Secretary for Metropolitan Development, was responsible for programs affecting entire urban or metropolitan areas. A new area, Demonstrations and Intergovernmental Relations, including a proposed model cities program, created an Assistant Secretary for Demonstrations and Intergovernmental Relations. A nonprogram Assistant Secretary for Administration provided central direction for administrative management at HUD.

From this initial organizational framework, which grouped program responsibilities under four assistant secretaries who were to function as both line and staff offices, there began, in 1969, a series of regroupings first diffusing power and program responsibilities and then centralizing functions in a horizontal manner among assistant secretaries. For example, the present headquarters structure centralizes all housing programs to an Assistant Secretary for Housing who administers programs of production and management, including low-income housing and management and disposition of HUD-held properties. In the initial structure, these responsibilities were split between an Assistant Secretary for Mortgage Credit and an Assistant Secretary for Renewal and Housing Assistance. During the latter part of 1969, a major functional organization grouped all housing production functions, both assisted and unassisted housing production, under an Assistant Secretary for Housing Production and Mortgage Credit. The housing management functions, along with urban renewal, were placed under an Assistant Secretary for Renewal and Housing Management.

A second phase of the reorganization, started in 1969, removed the urban renewal functions from the Assistant Secretary for Renewal and Housing Management and placed housing management under a retitled Assistant Secretary for Housing Management. This reorganization produced no change to the Assistant Secretary for Housing Production and Mortgage Credit who still retained responsibility for programs and activities dealing with housing production. During 1976, a second major change at headquarters was announced. Housing production and mortgage credit and housing management were merged under an Assistant Secretary for Housing. The headquarters Housing Division has functioned as a unit since then.

Similar to housing, community development functions were subject to a number of changes which were eventually consolidated under a single Assistant Secretary for Community Planning and Development.

In addition to the above, new roles were added, deleted, and modified at headquarters. For example, an Assistant Secretary for Fair Housing and Equal Opportunity was established as well as an Assistant Secretary for Policy Development and Research. An Assistant Secretary for Consumer Affairs and Regulatory Functions, which arose out of a series of changes, was subsequently abolished. Similarly, several new administrations were established within HUD: a New Communities Administration and the Federal Disaster Assistance Administration. This later activity was transferred from the Office of Emergency Preparedness in the Executive Office of the President and in 1978 was transferred out of HUD to a new Federal Emergency Management Agency.

CHANGING ORGANIZATIONAL  
STRUCTURES AT FIELD OFFICES

Initially, the field structure was a carryover from the constituent activities of HHFA. In this structure there were two distinct field delivery elements: one was FHA with 76 field insuring offices, another was an HHFA structure of 7 regional offices which administered various programs for urban renewal purposes and low-income housing administration. Under this setup, regional administrators were assisted by two assistant regional administrators: one assistant was concerned with private housing, urban renewal programs, land and facilities services, low-rent housing assistance, and administration; another assistant was responsible for urban planning, community improvements, relocation, and economic and market analysis services. This structure required no regional layering as under current operations. Officials at insuring offices and regional offices had direct lines of communication and authority to HUD headquarters.

The first increment of regional layering came about when zone operations commissioners on the FHA central office staff were replaced by assistant regional administrators in HUD regional offices. And in 1969, regional layering became a reality when HUD, by executive order, was compelled to assign staff and to relocate regional and area offices to conform with the other socially oriented agencies of the executive branch. In conforming with the executive order, calling for uniform geographical boundaries for all Departments, HUD initiated a first phase in 1970, when it announced full establishment of 23 HUD area offices. In 1971, HUD established the second phase of the field reorganization by announcing a two-tiered field structure--a regional office structure for 10 offices layered over 39 area and 37 insuring offices. Under this unified field structure, authority flowed from the Secretary to the regional administrator and from the region to the area and insuring office directors. Also, regional offices relinquished day-to-day responsibility for operating HUD programs to the field offices. The overall intent of these changes was to give decisionmaking authority on projects and applications to officials closest to the problems--the field office directors.

During October 1977, HUD announced a major revision in the chain of command from HUD headquarters to its field offices. Program assistant secretaries would exercise line authority over their programs in the field as well as staff authority under the Secretary. The role of HUD's 10 regional offices would be diminished under this change; they would be bypassed by area office managers in favor of the HUD assistant secretary. Concurrent with this announcement was the annexation of multifamily staffs by the area offices from insuring offices. The stripped-down insuring offices were redesignated as either service offices or valuation stations reporting to an area office. These chain of command revisions were made to correct deficiencies in

- unclear assistant secretary authority and accountability;
- lack of clear, consistent, and timely headquarters statements of policies, objectives, and interpretations to the field;
- processing delays resulting in large measure from duplicative regional office participation in housing operations;
- inadequate technical assistance at area offices; and
- excessive overhead cost of the present field office structure.

The above field structure has remained intact until September 8, 1983, when HUD reorganized. HUD is restructuring its field organization to reflect reduced workload and program changes. The key features of this proposal are to strengthen the role of regional administrators and simplify HUD's organizational structure. This proposal reverses the 1977 reorganization which diminished the role of regional administrators.

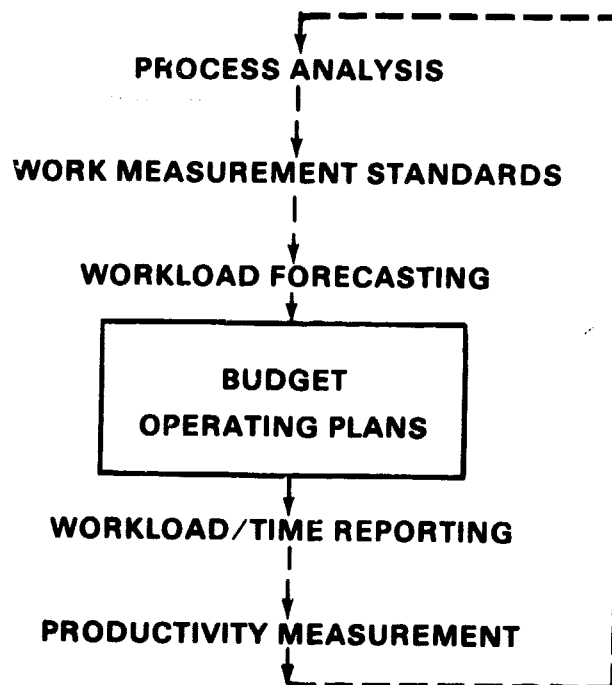
### THE RESOURCE MANAGEMENT SYSTEM

From 1974 to 1982 the Department used a network of management systems and processes to plan and control the work of the Department and its workforce and relate accomplishments to the designated departmental and program priorities. What evolved over this period of time was a management system designed to provide

- a direct linkage between planning, budgeting, and actual operations;
- an operational planning system that translated policies, programs, and budget decisions and strategies into a plan identifying organizational responsibilities and resource commitments; and
- a performance monitoring system that tracked work accomplishment and provided a basis for measuring productivity and identifying problem areas and potential solutions.

The major objective of the system was the efficient and effective use of available resources to perform work.

The focal point of the system was the operating plan which was the principal vehicle for budget execution as it communicated the Department's decisions on priorities, the program and service workload, and work force allocations and provided the basis for subsequent monitoring and assessing performance and productivity. The following are the primary elements of the system and the general sequence in which they occurred.



Source: Office of The Assistant Secretary For Administration, HUD



WORK PROCESS ANALYSIS  
WORK MEASUREMENT, AND  
PROJECTING WORKLOADS AND  
WORK FORCE REQUIREMENTS

Work process analysis involved the development and maintenance of ways to accomplish the program and service work of the Department. Methods studies and flow charting were two techniques that HUD used to identify and reduce duplication, complexities, excessive reviews, or other disruptions to work flow in order to make maximum use of its work force.

Work measurement standards were calculated for designated phases of processes or selected outputs. HUD used techniques such as technical estimates, historical data, and time reporting data to develop its standards. As part of this system, standards were to be periodically reviewed and revised to improve their credibility and reflect changing conditions.

Through various program and management data systems, information on the status of program and management activity was collected. This information provided a large part of the basis for workload projections for the upcoming fiscal year. These estimates, in conjunction with the various work standards and criteria, were used to develop work force needs estimates. This information along with various other program and financial management information would then be used to assemble the Department's budget. In this regard, standards were used to help justify work force needs in the budget process, as well as provide the basis for allocating the work force levels that were finally approved by the Congress.

THE OPERATING PLAN, TIME  
REPORTING, AND PERFORMANCE  
AND PRODUCTIVITY MEASUREMENT

After the budget was approved the Department assembled its operating plan which documented and communicated the departmental/Secretarial priorities and objectives, workload and work force allocations, and narrative guidance.

In addition to communicating the operational direction for the Department and its respective programs, the operating plan data system also provided the basis for tracking and reporting on the status of the various workload items in the plan. The status of Secretarial priorities and objectives was provided in a special executive management report generated by OPLAN data. These various reports were designed to provide the foundation for program control and accountability.

Using work accomplishment reports from the operating plan and the Regional Employees Time Reporting Systems, productivity measurement was to be achieved.

HUD SECRETARIAL PRIORITIESFOR FISCAL YEAR 1982<sup>1</sup>

1. To assist directly or indirectly in the collection of amounts owed to the Department.

This priority's subobjectives are concerned with collecting amounts from such things as multi- and single-family notes, Title I defaulted loans, and disallowed costs.

2. To reduce opportunities for fraud, waste, and mismanagement.

This priority's subobjectives are concerned with timely resolution of internal and external audit findings, and implementing an accountability monitoring concept.

3. To assure commitment of funds for minority businesses during the fiscal year.

This priority's subobjectives set dollar amounts for CPD programs and Housing programs.

4. To address underrepresentation of minorities and women in professional and administrative positions, to the extent possible, with available opportunities.

This priority's subobjectives established percentage goals for opportunities by grade level.

5. To implement new State Block Grant Program and other 1981 legislative changes, including streamlined Entitlement Block Grant Program.

This priority's subobjectives called for reviewing the implementation actions on the identified programs and the new legislation.

6. To improve efficiency and effectiveness of program implementation and to minimize potential for fraud, waste, and mismanagement through monitoring of and technical assistance to CPD Program recipients.

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<sup>1</sup>These are the priorities transmitted to all regional administrators on April 1, 1982. For 16 of the 17 priorities, subobjectives were provided which established quantitative and qualitative levels of achievement for each region.

This priority's subobjectives established the number of projects or grantees to be monitored for various CPD Programs and called for reviewing the quality of technical assistance being provided.

7. To close out programs/projects under CDBG and 701 Comprehensive Planning Assistance Programs.

This priority's subobjectives established the number of projects to be closed out by program.

8. Property disposition.

This priority's subobjectives set specific numbers of properties to be sold and increased the percentage amount to be recovered on these sales.

9. To develop and maintain workout plans.

This priority's subobjectives set goals for dealing with financially troubled PHAs and Indian housing authorities and called for action on all delinquent single-family mortgages.

10. To perform monitoring reviews.

This priority's subobjectives called for monitoring reviews of all initial and second moderate rehabilitation reviews of PHAs and all Section 8 Finders-Keepers management reviews of PHAs.

11. To perform Public and Indian Housing reviews.

This priority's subobjectives established specific numbers of reviews for such things as utilities, management, and occupancy.

12. Tenant accounts receivable.

This priority's subobjectives established a threshold for doing an on-site review of PHAs' rent collection activities and established an amount tenant accounts receivable is to be reduced for Indian housing authorities.

13. To obtain maximum assistance in processing Title VIII complaints through full field implementation of State and local fair housing programs.

This priority's subobjectives dealt with monitoring state and local agencies' performance, conducting training sessions, and conducting performance evaluations.

14. To assure and enhance participation of FHEO in monitoring CDBG--entitlement and nonentitlement communities--and to emphasize monitoring as a means of providing technical assistance.

This priority's subobjectives established goals for desk audits of entitlement and small cities grantees and goals for visiting those grantees.

15. To assure effective utilization and to avoid fraud, waste, and mismanagement of funds provided to Community Housing Resource Boards.

This priority's subobjectives set goals for monitoring Community Housing Resource Boards' operations.

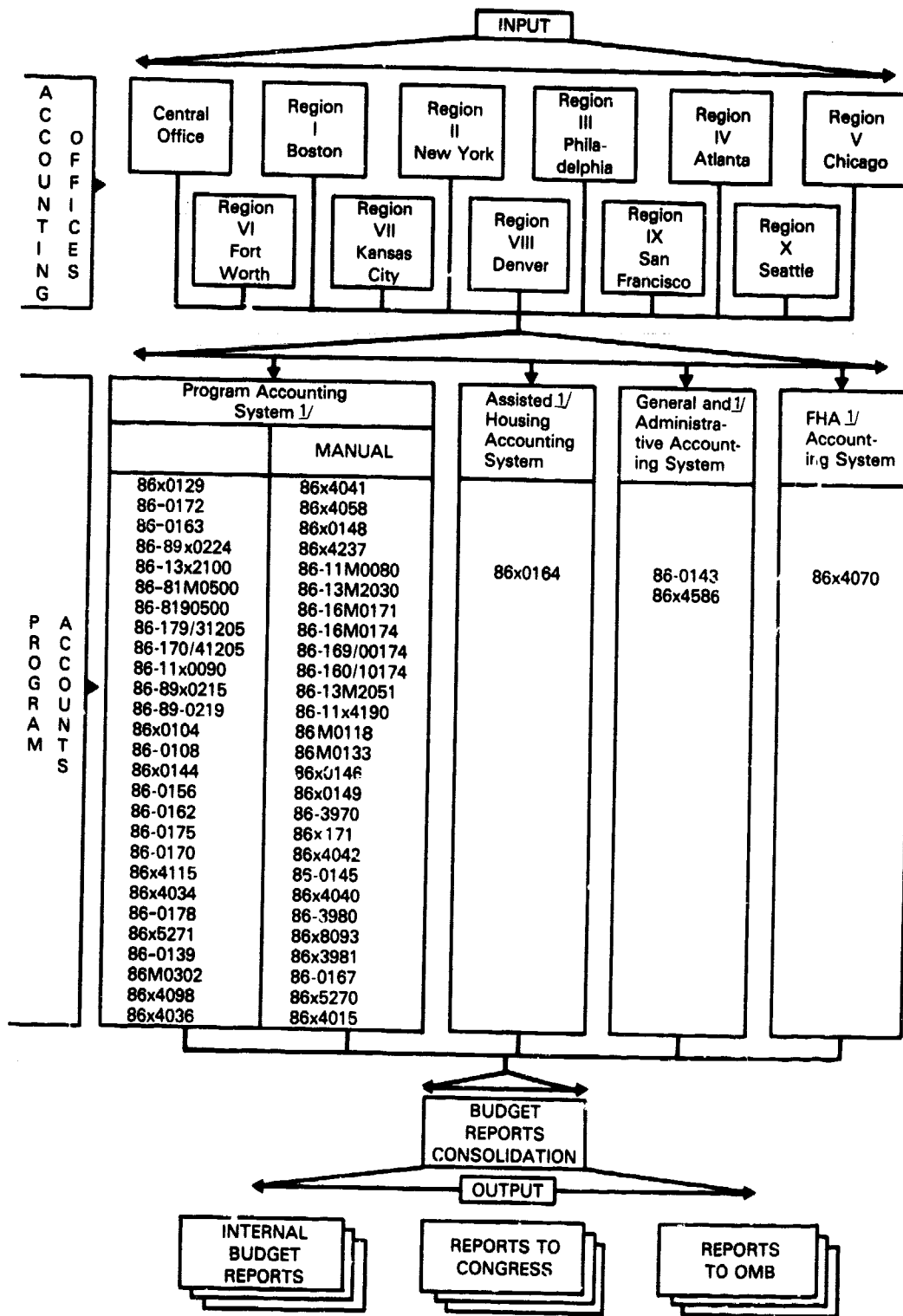
16. To assure that quarterly levels of deposits in minority- and women-owned and controlled financial institutions by grantees and contractors who are recipients of HUD program funds reach at least \$100 million.

This priority did not have subobjectives.

17. To deposit cash receipts and disburse funds in accordance with sound accounting and cash management practices.

This priority's subobjectives set the criteria for depositing all collections and provided for Cash and Securities Reviews.

## PROCESS USED TO DEVELOP BUDGET EXECUTION REPORTS



1/Some of the individual automated program accounts include manual processes.

PROGRAM ACCOUNTS**HUD Financial Management Systems Arranged by Function**

<b>Function</b>	<b>Account Symbol</b>	<b>Title</b>
<b>Insurance</b>	<b>86X4070</b>	<b>Mortgage Insurance Accounting</b>
		<b>- Single Family</b>
		<b>- Multifamily</b>
		<b>- Title I</b>
<b>Subsidy</b>	<b>86X4041</b>	<b>Rental Housing Assistance Fund</b>
	<b>86X4058</b>	<b>College Housing Debt Service</b>
	<b>86X0129</b>	<b>Rent Supplement Program</b>
	<b>86X0148</b>	<b>Homeownership and Rental Housing Assistance</b>
	<b>86-0172</b>	<b>Troubled Projects Operating Subsidy</b>
	<b>86-0139</b>	<b>Housing Payments (disbursement only)</b>
	<b>86-0163</b>	<b>Payments for Operation of Low-Income Housing Programs</b>
	<b>86M0302</b>	<b>Low-Rent Public Housing - Annual Contributions</b>
<b>Grants</b>	<b>86X4237</b>	<b>New Communities Guarantee Fund</b>
	<b>86-89X0224</b>	<b>Operating Expenses, DOE</b>
	<b>86-13X2100</b>	<b>Regional development Programs</b>
	<b>86-81M0500</b>	<b>Community Services Administration</b>
	<b>86-8190500</b>	<b>Community Services Administration</b>
	<b>86-179/31205</b>	<b>Military Construction, Navy (Seattle)</b>
	<b>86-170/41205</b>	<b>Military Construction, Navy (Seattle)</b>
	<b>86-11M0080</b>	<b>Public Works Acceleration (Executive)</b>

PROGRAM ACCOUNTS**HUD Financial Management Systems Arranged by Function (cont)**

<b>Function</b>	<b>Account Symbol</b>	<b>Title</b>
<b>Grants</b>	<b>86-13M2030</b>	<b>Development Facilities</b>
<b>(con't)</b>	<b>86-16M0171</b>	<b>Manpower Training Services</b>
	<b>86-16M0174</b>	<b>Manpower Training Services</b>
	<b>86-169/00174</b>	<b>Manpower Training Services</b>
	<b>86-160/10174</b>	<b>Manpower Training Services</b>
	<b>86-13M2051</b>	<b>Job Opportunities Program</b>
	<b>86-11X4190</b>	<b>Appalachian Housing Fund</b>
	<b>86-11X0090</b>	<b>Appalachian Regional Development Program</b>
	<b>86-89X0215</b>	<b>Solar Conservation, DOE</b>
	<b>86-89-0219</b>	<b>Solar Energy Finance, DOE</b>
	<b>86X0104</b>	<b>Comprehensive Planning Grant</b>
	<b>86-0108</b>	<b>Research and Technology</b>
	<b>86M0118</b>	<b>Low Income Housing Demonstration Program</b>
	<b>86M0133</b>	<b>Model Cities Program</b>
	<b>86X0144</b>	<b>Fair Housing Assistance</b>
	<b>86X0146</b>	<b>Urban Transportation</b>
	<b>86X0149</b>	<b>New Community Assistance Grants</b>
	<b>86-0156</b>	<b>Housing Counseling Assistance Program</b>
	<b>86-0162</b>	<b>Community Development</b>
	<b>86-3970</b>	<b>Joint Grants Management Fund</b>
	<b>86-0175</b>	<b>Neighborhood Self-Help Development Programs</b>
	<b>86-0170</b>	<b>Urban Development Action Grants</b>
	<b>86X0171</b>	<b>Urban Homesteading</b>

PROGRAM ACCOUNTS**HUD Financial Management Systems Arranged by Function (cont)**

<b>Function</b>	<b>Account Symbol</b>	<b>Title</b>
<b>Loans</b>	<b>86X4098</b>	<b>Low-Rent Public Housing Programs</b>
	<b>86X4115</b>	<b>Housing for the Elderly or Handicapped Fund</b>
	<b>86X4042</b>	<b>Nonprofit Sponsor Assistance</b>
	<b>86-0145</b>	<b>Payment of Participation Sales Insufficiencies</b>
	<b>86X4036</b>	<b>Rehabilitation Loan Fund</b>
	<b>86X4040</b>	<b>Community Disposal Operations Fund</b>
<b>Administrative Accounting</b>	<b>86X4586</b>	<b>Working Capital Fund</b>
	<b>86-3980</b>	<b>Administrative Operations Fund</b>
	<b>86X8093<sup>2/</sup></b>	<b>Gifts and Requests</b>
	<b>86-0143</b>	<b>Salaries and Expenses</b>
	<b>86X3981</b>	<b>Management Fund for Disaster Assistance</b>
	<b>86-0167<sup>3/</sup></b>	<b>Mobile Home Standards Program</b>
<b>Other<sup>4/</sup></b>	<b>86X0164 (A&amp;B)</b>	<b>Annual Contributions for Assisted Housing (obligations only)</b>
	<b>86X4015</b>	<b>Revolving Fund Liquidating Program</b>
	<b>86X4034</b>	<b>Urban Renewal Program</b>
	<b>86-0178<sup>2a</sup></b>	<b>Congregate Services Program</b>
	<b>86X5270<sup>4/</sup></b>	<b>Interstate Land Sales</b>
	<b>86X5271<sup>4/</sup></b>	<b>Mobile Home Inspection and Monitoring</b>

**Footnotes**

- <sup>1/</sup> Fee collections and payments of expenses from fees  
<sup>2/</sup> Special Reporting for gifts  
<sup>2a</sup> Contracts for services and grants  
<sup>3/</sup> Inspection and monitoring fees  
<sup>4/</sup> To be classified within the major groupings at a later date.

**Source: Assistant Secretary For Administration, HUD**



## CHARACTERISTICS OF AUTOMATED SYSTEMS REVIEWED

OFFICE OF LOAN MANAGEMENT SYSTEMSystem History

The system was developed in a region in the early seventies and expanded to include all regions in 1980. However, the system was not yet fully implemented in September 1982 as required income and expense data was not in the system for many projects.

Intended Purpose

This system is used to assist in analyzing the operations of insured multifamily projects by showing trends in project income and expenses. This system does not replace the need for a detailed annual review of financial statements by the field staff but aids in this review by identifying deviations from expected performance standards.

Information Contained

This system includes 3 years of income and expense data on each insured project and compares per unit data with expected performance standards. It does not provide information on other project characteristics such as physical condition.

Frequency of Output

Reports are produced as requested by HUD staffs in headquarters and in the field offices.

Primary User

Housing staff in the field offices.

COMPUTERIZED UNDERWRITING PROCESSING SYSTEM

The first phase of this system was installed in 1971, to provide field staff with the capability for estimating the cost of proposed projects. In 1975, a second phase was added to incorporate appraisal and mortgage credit processes. The system was further modified to enhance input procedures in 1979.

This system is used in the underwriting process to compile project costs from the time of conception through property appraisal, construction and final endorsement. The system is used to determine estimated operating costs of proposed projects and their estimated replacement value. It is also intended to be used to compare the cost or value of projects to be constructed to that of comparable existing projects to provide a basis for computing the maximum amount that HUD will insure.

This system has estimated costs for construction and operating expenses for the project being insured. The system also includes actual construction and operating costs for comparable projects.

HUD field staff can retrieve various reports from this system as required while analyzing a proposed project.

Housing staff in the field offices. This system also provides construction costs data for use in the public housing program and is used to fulfill requests by outside parties for actual construction cost data.

**BEST DOCUMENT AVAILABLE**

## CHARACTERISTICS OF AUTOMATED SYSTEMS REVIEWED

PUBLIC HOUSING AUTHORITY OPERATING STATEMENT SYSTEM

<u>System History</u>	<u>Intended Purpose</u>	<u>Information Contained</u>	<u>Frequency of Output</u>	<u>Primary Users</u>
This system was established in the early 1970's. It has been redesigned several times since then including two redesigns in 1979 and 1982.	This system compiles and analyzes operating receipt and expenditure data for public housing authorities. It can be used to monitor costs incurred by and financial performance of the public housing program and to evaluate the need for changes in the operating subsidy formula.	This system produces consolidated financial data that is compiled according to the number of units in each housing authority. The report details receipts and costs on a per unit month basis by individual area offices, regional offices, and overall national data. Although it does not present data by individual housing authority the data is available in the data base.	Reports are produced quarterly to update the annual financial data submitted by the public housing authorities.	Central Office Housing staff use this report to monitor public housing authorities and as a source of data to generate special reports for the Office of Management and Budget, the Congress, and housing interest groups.

MULTIFAMILY INSURED AND DIRECT LOAN INFORMATION SYSTEM

In 1977, a high level task force was established to investigate concerns about fragmentation of housing data between the automated and manual systems. As a result, this system was designed to replace these systems and provide improved data quality, coverage and accountability. It became operational in 1979.	This system provides the capability to track projects from the time the mortgage insurance application is received through final termination of insurance and disposition of the property. It is intended to support housing data requirements including program monitoring, budgeting and executive management reporting.	This system includes data on individual projects such as key dates and actions including management reviews, rent increases and mortgage defaults and reinstatements. It also includes information on the sponsors and tenants.	Reports are prepared periodically and on a request basis from the users.	Housing staff in Headquarters and the field offices. Also, data from this system is used to provide information to the Congress, Office of Management and Budget, and other interested parties. In addition, the Office of General Counsel can use the system to monitor the status of multifamily projects during foreclosure proceedings.
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BEST DOCUMENT AVAILABLE

RESULTS OF OUR ANALYSIS OFMANAGEMENT INFORMATION SYSTEMSOFFICE OF LOAN MANAGEMENT SYSTEM

The system was developed as a tool to aid loan specialists in the annual review of the income statements provided to HUD for insured multifamily projects. Mortgagors submit annual income and expense statements which field personnel use as the source documents for the system. The system formats this data to produce an income and expense analysis for each project for the most recent 3 fiscal years. The automated analysis shows income and expense information per unit and per month, income and expense trends, and indications of deviations from expected performance standards. The system is designed to identify those projects which are in danger of failing and indicate that a loan specialist should conduct a detailed review. The system was intended to aid the loan specialists by reducing technical and clerical efforts, thus providing more time for the judgmental aspects of project monitoring.

Early in 1982, a contractor for HUD's Office of Policy Development and Research completed a study of the correlation between multifamily project financial data and project failures resulting in transfers of mortgages to HUD. The study used statements of receipts and disbursements as well as income and expenses. The study found (1) little significant correlation between any data element and project failures, (2) financial ratios differing between defaulted and nondefaulted projects only in the year prior to failure, hence providing scant advance warning of impending financial failure, and (3) no systematic patterns of financial trajectories to failure. This study indicated that the Office of Loan Management System could not be relied upon to identify those projects most likely headed toward default.

Our review of this system reinforced the study results by identifying the following data limitations:

- Financial statement data may not reflect the project's physical condition. An insured project may appear to be fully solvent and be current in its debt and operating expense payments, but be on the verge of bankruptcy because project management has deferred maintenance work and allowed the project to deteriorate.
- Financial data is out of date. In some cases, data was at least 6 months old by the time it was entered into the system and, thus, did not reflect current economic conditions. For example, at the Seattle Field Office with about 225 insured projects, we found that as of July 1982, the financial statements for 2 of these projects were overdue up to 54 days; 34 were overdue up to 144 days; and

9 were overdue up to 500 days. The longest period a financial statement was overdue was 1,240 days.

--Financial data is not comparable between projects.

Even though HUD promulgates a detailed chart of standard accounts, and detailed instructions for use of these accounts, the classification of such items as income and expense is inconsistent between projects. An example is utilities: in some projects utilities are project-paid, in others they are tenant-paid, and in still others they are divided between project and tenant in various ways. Also, total heating and cooling expenses can vary widely between older and newer projects due to different insulation and construction techniques. Thus, the computation by the system of averages and norms for utility expenses is of limited value.

Limitations of this nature curtailed the usefulness of the system in detecting deviations from expected performance standards. Also, because of these limitations and because the volume of financial statement data which had to be entered into the system was considered to be time consuming, the system has been broadly criticized over the years, especially by field office staff. In two of the three field offices we visited, we were told that there was little use of the system. At the other office, we were told that the system could not be relied upon by itself, but that the systems' reports were useful in "lending credence" to HUD's questioning of project management practices.

COMPUTERIZED UNDERWRITING  
PROCESSING SYSTEM

Although this system serves several purposes, it is primarily intended to assist managers in processing mortgage insurance for multifamily projects by comparing the cost or value of projects to be constructed to that of comparable existing projects, and thus computing the maximum insurable amounts. The system primarily relies upon an analysis of gross physical characteristics for this computation.

Users of the system we talked to, as well as studies by the real estate appraisal industry, indicated that any method of estimating the cost of a project by comparing its gross physical characteristics with those of existing projects depends upon careful evaluations of differences in specific project characteristics and construction quality. The real estate appraisal industry recognizes the great degree of judgment and risk associated with such a cost estimating method. Methods based upon gross characteristics have been shown to produce valuations varying as much as 100 percent between extremes of construction quality.

HUD's Office of Public Housing has recognized the limitations of the system's cost estimation process and has proposed that HUD

change to an automated housing unit pricing system available commercially and used industry-wide. This pricing method would calculate quantities and current local prices of individual elements of material and labor costs using detailed construction plans and specifications. The Office of Public Housing advised us that it dropped this proposal due to budget constraints. However, the Office said that it is now planning to propose adoption of the same estimating technique on a manual basis, using handbooks published by the companies which provide the automated services.

This Office expects the proposed method to solve the problems associated with making judgmental adjustments for differences in physical characteristics and construction quality. In addition, this method could be expected to result in greater cost estimating accuracy and, since it more nearly equates to industry practice, to provide a common basis for the HUD field analyst and the developer/builder to use in resolving cost estimate differences. Also, the technique lends itself to substitution of various building systems or assemblies for evaluating the cost effectiveness of design alternatives.

Although the Computerized Underwriting Processing System may not fully meet the Department's need for determining the maximum insurable value of projects, accurate data would be useful for such purposes as assessing the economic feasibility of proposed projects and performing work process functions. In this regard, however, the Inspector General has found that the quality and timeliness of the system's data need to be improved. Our review confirmed that the field offices were not always inputting current, accurate and complete data.

#### PUBLIC HOUSING AUTHORITY OPERATING STATEMENT SYSTEM

This system is designed to accumulate accounting and financial data from public housing authorities which can be used to (1) monitor program financial performance, (2) study the costs of public housing, and (3) determine changes needed in the formula used to distribute over \$1 billion annually to public housing authorities for operating expenses.

Our review showed that the most significant problem with the Public Housing Authority Operating Statement System was that complete data was never entered into the system. Officials at HUD headquarters who require this data for managerial decisions estimated that only half of the project operating statement data currently is entered into the system in time to be useful. These statements, which are prepared by public housing authorities, are frequently handwritten, incomplete, or inaccurate. Also, our review showed that these data problems could be traced to several causes, including different HUD organizations controlling the receipt of the statements, evaluating them, and entering the data into the system.

MULTIFAMILY INSURED AND  
DIRECT LOAN INFORMATION SYSTEM

In 1978, HUD management recognized a need for a consolidated system to support the Department's work planning and performance measurement system. The system was to be implemented in three parts or subsystems. The one subsystem was to support the Department's work planning and performance measurement system and special needs of HUD headquarters. The other two subsystems were to principally support the unique needs of the field offices and would automatically provide input data to the system. Particular data elements of interest to field offices, but not required by headquarters, would be provided by the latter two subsystems.

Because of limited data processing funds, the scope of the consolidated system was reduced. HUD developed only one subsystem of the Multifamily Insured and Direct Loan Information System with modifications to incorporate some of the data elements envisioned for the other two subsystems which were not developed. As the two subsystems not developed were primarily for field office use, the current system does not fully meet their needs. As a result, HUD's field office personnel reported to us a low degree of satisfaction with the system's capability to satisfy many of their day-to-day information needs. They attributed this dissatisfaction to their need to input and maintain massive amounts of data in the system without having access to data in ways useful to their own particular needs.

We found this system's edits and controls are improved over those of its predecessor system. We also found the systems data was kept fairly current, owing partly to the fact that the system interfaced with HUD's work planning and performance measurement systems. Also, the system's data quality benefits from a data entry edit capability. Formats of the data input documents are displayed on the work station screen, and limited edits of the data are performed as the data is entered. This capability is not provided, for example, by the Office of Loan Management System.

After the conclusion of our review, HUD initiated action to modify and enhance the Office of Loan Management System and the Multifamily Insured and Direct Loan Information System. This action, which is expected to be completed in fiscal 1984, is designed to combine the two systems into a single data base with expanded capabilities. In the interim, HUD advised that it has created additional reports for monitoring the financial statement receipt and review process.

REVIEW OF INTERNAL CONTROLSOVER INSURANCE PREMIUMS,CASH RECEIPTS, AND CASH DISBURSEMENTSBETTER INTERNAL CONTROLS  
NEEDED OVER INSURANCE PREMIUMS

The Department's financial management systems did not contain current or accurate data and lacked the basic internal controls necessary to assure that annual single-family mortgage insurance premiums of over \$400 million were received in full and on time. While HUD is implementing a new system of collecting and accounting for single-family insurance premiums, the new system offers no guarantees that premiums will be collected in full and on time or assurance that penalties will be imposed when warranted.

HUD insures about 5 million single-family home mortgages financed by lending institutions such as banks and mortgage companies. The insurance is paid by the homeowner and is included in the monthly mortgage payment made to the lending institution. The lending institution then remits the premiums collected to HUD.

The system's fundamental defects, which have been documented over the years, were that:

- HUD's records were so inaccurate that HUD did not know how much mortgagees owed.
- Few audit reconciliations of mortgagee and HUD records were conducted.
- Penalties were not imposed for underpayment, late payment, or nonpayment of amounts due.

Although the mortgagees were required to pay premiums fully they did not always do so, as the few audit reconciliations that HUD conducted in fiscal 1982 indicated. In the past, HUD's response was to assume more and more of the burden in determining what the correct payments should be. As a consequence of this extensive administrative effort, HUD had reduced the staff time available for oversight functions.

Mortgagees that obtain Federal Housing Administration loan insurance enter into a contractual obligation with HUD to report and pay premiums promptly and fully. This contract must become the cornerstone of the HUD premium collection program. The primary responsibility for reporting and paying rests with the mortgagees. HUD can assist the mortgagees in meeting this responsibility but must penalize them if they do not.

Central to the necessary change in the relationship between the mortgagees and HUD is the institution of a system of internal accounting controls. Internal accounting controls for the single-family mortgage insurance premium collection system would:

1. Assure that HUD has a record of all insured mortgages as soon as settlement occurs or transfers are effected.
2. Compare premiums paid with annual premiums due by mortgagees responsible for payment.
3. Provide adequate penalties to reinforce the accurate and timely reporting and paying requirements.

In the past, HUD's system did not have these basic internal controls.

HUD has started to address these problems by revising its premium collection system. These revisions were timed to coincide with the conversion from annual to monthly collections of insurance premiums as prescribed by law.<sup>1</sup> When HUD implemented monthly collections of single-family insurance premiums in September 1982, it collected \$22 million which was not previously recorded as a receivable on its accounting records.

At the time of our field work the revised system was not fully implemented. To be effective this new system also will be dependent upon the accuracy of HUD's records of insured mortgages, the adequacy of the premium reconciliation process, and the imposition of penalties for delinquent payments.

#### Accurate records of all insured mortgages needed

Prior audits conducted by us and the HUD Inspector General have identified major problems with the completeness and accuracy of HUD's file of insured mortgages (insurance-in-force file). Our current review showed that these problems continue although the effectiveness of HUD's proposed new system depends upon the quality of the insurance-in-force file.

In March 1982, the Inspector General reported that major internal control weaknesses existed in the maintenance of the insurance-in-force file. Our work showed that new mortgages were not always recorded in the insurance-in-force file because the field offices did not promptly input required information.

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<sup>1</sup>Section 530 of the National Housing Act as added by Section 320 of the Housing and Community Development Act of 1980, Public Law 96-399, 94 Stat. 1646.



We also found that changes in mortgage ownership were not promptly and reliably reported to HUD by the mortgagees. Although HUD regulations required the mortgagee to report these changes, the required documentation was not always provided. For example, we found that an insured loan was assumed by a new mortgagor in 1974. However, the HUD insurance-in-force file was not revised to reflect the change and the HUD billings reflected the original mortgagor. As a result, the mortgagee had not paid HUD back premiums of \$746 on this insured mortgage. The errors in the insurance-in-force file were further evidenced when we selected a mortgagee for review in the Seattle, Washington, area. HUD records indicated this mortgagee was delinquent in making payments. However, we found that the mortgagee had entered bankruptcy in November 1980 and had been convicted of embezzling escrow funds. Although some premiums were delinquent since 1977, HUD continued to send premium billings to the mortgagee because HUD's records were not revised to reflect changes in the mortgagee's financial status.

HUD management was aware that its inability to accurately maintain the insurance-in-force file caused premium losses. A collection group which was reviewing mortgagee records in an attempt to correct prior billings had, in visiting 37 mortgagees during fiscal 1982, collected about \$8.8 million in delinquent premiums. In some instances this group discovered that individual mortgage premiums had gone unpaid for 10 years.

HUD's inability to determine accurately the premiums paid, annual premiums due, and the mortgagee responsible for payment continues to be a major factor in the breakdown of the collection system. Until HUD fully develops its new system to the point that the insurance-in-force file is accurately maintained, this problem will continue.

#### Periodic reconciliations of mortgagee accounts needed

Under the previous system, HUD records of amounts due were not reconciled with mortgagee records on a systematic basis to determine the accuracy of amounts paid. The new system contains the same deficiency, but HUD plans to make improvements.

Our review at three area offices showed that the field staff responsible for reviewing mortgagee accounts in accordance with HUD Handbook 4060.3 were reconciling only a few mortgagee accounts each year and spending little effort on these reviews. Although few reconciliations were done, of more importance is the fact that these reconciliations were not integrated into a comprehensive internal control system. These reconciliations should be planned based on criteria such as the amount of premiums paid, established tolerances which are built into the proposed system, and the results of past HUD reviews.

HUD accounting personnel planned to integrate the systematic reconciliation of accounts into the new system. The proposed system can be effective in tracking premiums paid only if it identifies any mortgagees whose premiums are not paid.

HUD was aware that to make such a system work with about 5 million insured mortgages requires maximum use of computer resources and had initiated efforts to link with the computer resources of the mortgagee. HUD records indicated that over 60 percent of all insured mortgages are held by 150 mortgagees and accomplishing this linkage would require these mortgagees to provide HUD with automated input for use in reconciling accounts. At the end of November 1982, 91 mortgagees were participating in a tape exchange program with HUD.

This reporting linkage also has potential for reducing HUD's burden in processing mortgage ownership changes. At the very least, if properly implemented, it should permit HUD to reconcile its records with the mortgagees' records periodically and provide the HUD field offices with a discrepancy list. The field staff could then meet with the mortgagee and reconcile the differences during the reviews which they now are required to perform.

#### Penalties needed for delayed payments

Both HUD's old system and its new system provide for charging penalties and interest for delayed payments. In the past, these charges were not systematically enforced.

HUD has recently begun assessing charges for delayed payments. In September 1982, \$252,507 in such charges were assessed against 90 delinquent mortgagees. While such action in and of itself does not assure timely collection, it does (1) provide a clear and visible sign to mortgagees that HUD intends to strengthen its single-family premium collection program and (2) sets in motion long overdue provisions of its regulations--assessing charges for late payments.

#### BETTER INTERNAL CONTROLS NEEDED OVER CASH RECEIPTS

The Department's system of internal control was not adequate to safeguard receipts. Collections were not placed under immediate accounting control. Further, HUD was not making maximum use of electronic funds transfer technology. HUD management has recently taken action to improve the timeliness of and control over its deposits.

Cash and checks received through the mail or over the counter are inherently susceptible to loss, theft, or other misuse. Recognizing this, the GAO Policies and Procedures Manual for Guidance of Federal Agencies specifies that agency collections

should be placed under appropriate accounting and physical controls as soon as they are received. Such controls include requiring that checks be (1) immediately logged in and (2) restrictively endorsed for deposit to the Department's account. At HUD headquarters we found that collections were not promptly placed under accounting control. The mail was opened in one location but the collections were moved to another office before being logged in and endorsed.

Also, HUD had not fully implemented procedures to comply with the Treasury Department's policy to use electronic funds transfers for receipts of \$10,000 or more. Under electronic funds transfers, which is widely used commercially, money is transferred almost instantaneously without the need for preparing and mailing a check. When HUD relied on the mails, its receipts were delayed. For example, in 1982, HUD sold property in Puerto Rico for \$20 million and the purchaser mailed checks to HUD headquarters. HUD officials said their plan is to use the electronic funds transfers system for such transactions in the future.

Management was aware of the benefits of improved cash management and has recently initiated action to improve the timeliness of its deposits. It recently implemented a program for depositing payments for mortgage insurance premiums directly with a bank. This program speeds up the depositing of funds in Treasury and HUD expects annual savings of about \$1.5 million. Management's awareness of cash management problems and the actions taken to expedite the depositing of receipts in Treasury accounts are positive steps.

#### BETTER INTERNAL CONTROLS NEEDED OVER DISBURSEMENTS

HUD's systems did not provide adequate internal controls over disbursements. As a result, disbursement activities did not conform to sound cash management practices and federal funds were exposed to loss, misuse, and inaccurate accounting.

GAO's Policy and Procedures Manual for Guidance of Federal Agencies (7 GAO 20.2) states that vouchers to pay bills should be preaudited to check and verify the accuracy of data, including amounts shown. The preaudits should also establish whether the payment would duplicate another, whether it has been properly authorized, and whether it is a legal payment being made for goods and services received in accordance with the terms of the agreement.

Our review showed that the HUD voucher review process relied on extensive manual efforts in approving about 125,000 payments for about \$300 million annually. These payments were for utilities and repairs on HUD-owned property. The Office of Finance and Accounting approves these disbursements, but the field offices

contract for and monitor performance of the work. The field office receives the invoices for the work performed and prepares the vouchers for payment. These vouchers are forwarded to headquarters for processing the disbursement transaction. Automation of the verification process at field offices would permit adoption of additional internal controls at headquarters by eliminating the present manual effort and making staff available for other functions.

Many of the manual controls used to approve payments could be automated and vouchers could be statistically sampled for the limited manual review necessary to determine legality, propriety, and correctness prior to payment. We found the manual voucher review process at HUD headquarters to be less efficient, consistent, and effective than properly designed and implemented automated controls would be. For example, when voucher examiners process an invoice for payment they are, among other things, supposed to manually

- assure that the invoice, receiving report, and the purchase order or contract document match and
- review information in the manual file to detect potential duplicate payments.

A good automated system would perform these functions, eliminate the need for extensive manual checks, and ensure that the system's internal controls were consistently followed. As part of this system development, HUD would need to adopt quality control techniques and develop a statistical sampling plan for selectively assuring that the system's internal controls are effective.

Also, we found that the Office of Finance and Accounting did not time its disbursements to coincide with invoice due dates because of problems related to processing of its payment vouchers. As a result, payments can be made too early or too late, which increases the government's operating costs.

Treasury directives specify that agencies schedule the issuance of checks as close as possible to the due date of the invoice, contract, or other agreement. Early payments accelerate the flow of cash from the Treasury. This adds to the amounts Treasury must borrow and increases interest costs. On the other hand, late payments preclude the government from taking advantage of cash discounts offered for prompt payment and in the future may cause the government to pay interest.

Further, we found that the manual payment process did not always include adequate internal controls. For example, under the Section 235 Program, HUD pays interest subsidies of about \$200 million annually to mortgagees for loans made to eligible low-income participants. A joint study by the Office of Finance and Accounting and the Office of Inspector General concluded that

its manual system does not (1) provide Housing with information necessary to effectively monitor mortgagee performance, (2) assure payments are made only to HUD-approved mortgagees, and (3) prevent duplicate payments to mortgagees. Under its payment system, HUD pays the mortgagee the amount billed and relies on the threat of a HUD audit as the primary safeguard.

ACCOUNTING AND FINANCIAL MANAGEMENTRESPONSIBILITIES WITHIN HUD

Over 20 offices in HUD headquarters have accounting and financial management responsibilities. Financial management functions are also performed by HUD's field offices. An explanation of the responsibilities assigned to the various HUD activities follows.

ASSISTANT SECRETARY  
FOR ADMINISTRATION

The financial management responsibilities under the Assistant Secretary for Administration include the formulation and review of the HUD budget, policy direction and review of overall HUD financial reporting and accounting operations, analysis of grants and contracts, and the acquisition of property and supplies. In addition, the Department's information policies and plans are established and data processing and related hardware and software are acquired and operated to support HUD programs. These functions are performed by the following offices:

- Office of Budget.
- Office of Finance and Accounting.
- Office of Procurement and Contracts.
- Office of Administrative Services.
- Office of Information Policies and Systems.

ASSISTANT SECRETARY FOR HOUSING -  
FEDERAL HOUSING COMMISSIONER

The financial management responsibilities for housing programs are performed by several offices. These activities include settling claims, developing and controlling program funding levels, analyzing conditions in the securities market, authorizing fee refunds, and establishing policies and procedures for budgeting systems for public housing agencies. In addition, assistance on automated systems for the housing area is provided to Housing staff at headquarters and in the field. The offices that perform these functions include

- Office of Management,
- Office of Field Operations,
- Office of Financial Management,
- Office of Budget and Economic Analysis,

- Office of Multifamily Housing Development,
- Office of State Agency and Bond Financed Programs,
- Office of Multifamily Financing and Preservation,
- Office of Public Housing,
- Office of Single-Family Housing, and
- Office of Title I Insured Loans.

ASSISTANT SECRETARY FOR  
COMMUNITY PLANNING AND DEVELOPMENT

Financial management functions of this activity include preparing budgets, performing financial analyses, determine impact of program proposals and grantee performance, developing audit procedures and procedures for grant closeouts, and maintaining fund-accounting systems to track funding progress and problems. In addition, data systems are operated to support program activities. These functions are performed by four offices:

- Office of Management.
- Office of Urban Development Action Grants.
- Office of Block Grant Assistance.
- Office of Field Operations and Monitoring.

ASSISTANT SECRETARY FOR  
POLICY DEVELOPMENT AND RESEARCH

Financial management functions in this activity include developing and directing general department-wide economic and financial research plans in the areas of housing demand and supply, as well as budgeting for this activity; monitoring contractor performance; and gathering program obligation data. These functions are performed by two offices:

- Office of Economic Affairs.
- Office of Management and Program Control.

ASSISTANT SECRETARY FOR FAIR  
HOUSING AND EQUAL OPPORTUNITY

Financial management responsibilities in this activity include budgeting and developing and maintaining management information systems. The FHEO operating budget control system is also developed and maintained to assure compliance with intended

allocations. These functions are performed by the Office of Management and Field Coordination.

#### NEW COMMUNITY DEVELOPMENT CORPORATION

The financial management activities performed by this corporation include developing and maintaining financial standards, formulating and executing the budget, managing the New Communities Fund to ensure the timely payment of liabilities and borrowings on behalf of the fund from the Treasury, and representing HUD in all dealings concerning the corporation's financial and accounting functions. These activities are performed by two offices:

- Office of Operations and Finance.
- Office of Program Policy and Management.

#### GOVERNMENT NATIONAL MORTGAGE ASSOCIATION

This government corporation within HUD has responsibility for its own accounting operations and has a mortgage disposition board that makes financial decisions under the delegated authority of the HUD Secretary.

#### REGIONAL AND AREA OFFICE FINANCIAL MANAGEMENT ACTIVITIES

HUD's 10 regional offices have financial management responsibilities for project financing in public housing agencies and monitoring area office execution of housing financial transactions. Also, the regions are responsible for the reallocation of program funds to the area offices and administering regional accounting and financial management functions. In the area offices, financial management activities include review of project cost estimates and the fiscal aspects of project budgets and financial plans. In addition, performance goals, resource allocations, and budget formulations are analyzed and tracked. The offices within the regions and the divisions within the area offices performing these activities include:

##### Regional Financial Management

- Office of Regional Housing,
- Office of Regional Community Planning and Development, and
- Office of Regional Administration.

##### Area Office Financial Management

- Housing Division,



- Community Planning and Development Division,
- Administrative Management Division, and
- Economic and Market Division.



THE SECRETARY OF HOUSING AND URBAN DEVELOPMENT  
WASHINGTON, D.C. 20410

August 29, 1983

Honorable Charles A. Bowsher  
Comptroller General  
General Accounting Office  
Washington, D.C. 20548

Dear Mr. Bowsher:

Thank you for the opportunity to review and comment on the GAO Draft Report entitled "Increasing HUD's Effectiveness Through Improved Management," which was provided to me by Mr. J. Dexter Peach, Director, Resources, Community, and Economic Development Division, of the GAO. We appreciate the time and work that went into this study, and many HUD reviewers noted the particular improvements of this version over the original draft.

We also recognize the Report as a new kind of effort by GAO, and are grateful for the personal briefings you and your staff provided for me and my managers.

I have one general comment which I discussed at length during a recent meeting with your staff. The draft report is not accurate in its description of how housing policies are developed. I understand that the report will be revised accordingly. The comments that follow address the findings and recommendations in the sequence of the Report.

Finding No. 1: Achieving An Organizational Structure Compatible With The Evolving Federal Role in Housing and Community Development

Under this heading, the Report quite accurately characterizes the changes in program direction the Department is experiencing, and notes that the present organizational structure may not be entirely appropriate to the new direction. GAO's principal recommendation is that the Secretary delay the proposed field reorganization, pending reevaluation of program and policy directions, and clarification of lines of authority and responsibility.

While we would appreciate the luxury of more time for review, we believe that would only further delay the process of making needed staffing adjustments. The issues in the field reorganization have been studied at length, and with specific reference to program changes. We have testified before Congress on the subject, reached a decision, and have issued notices to the field. We believe that the reorganization will, in fact, address other issues raised in the Report.

For example, we agree with the Report (in Chapter 2) that, given the direction of HUD programs, it may not be cost-effective to maintain offices in all of our present locations. Moreover, one of the effects of the reorganization will be to strengthen the role of the Regional Administrator and help with the problem of tiers of management by clarifying responsibilities.

Finding No. 2: Enhancing Managerial Leadership, Accountability For Cross-Cutting Management Functions, And Continuity Within HUD's Top Management Team

In this section, the Report reviews several HUD managerial and administrative functions and recommends several improvements. On budgeting, the Report recommends closer links to other management processes. We agree and have taken steps to create the links. On planning, the Report recommends systematic coordination of agency planning systems and characterizes the budget process as an ineffective "substitute" (Vol.I, p.v) for needed planning systems. We would point out that the budget process was never intended as a substitute for other planning. We believe that there is a fundamental confusion in the Report about the nature of planning, and would like to expand on this point.

In our view, there are two distinguishable kinds of planning with which the Report is concerned. The Report faults the Department for not having in place what might be called the "grand scale" plan of long-term agreed-upon and carefully articulated goals and objectives.

We do not agree that the Department lacks long-term goals and objectives. HUD's objectives, as reported to the President, are:

- to provide cost-effective housing for the truly needy;
- to encourage homeownership;
- to ensure equal housing opportunities for all and to prevent discrimination in housing;
- to assist community development;
- to promote the economic growth of cities and States, primarily by stimulating private investment;
- to delegate to State and local governments greater responsibility for the planning and operation of community and economic development activities; and
- to implement more cost-effective ways of operating the Department.

We are attempting to refine these broad Departmental goals within the context of existing and proposed legislation.

The second kind of planning at issue is operational planning, including budgeting and management planning for allocating resources. The Report rightly notes that these processes need to be brought together (which we were starting to do when the first draft was written), and further, that the Department is in the process of changing from the former "Operating Plan"--a highly detailed but unhappily rigid and complicated system, which measured things irrelevant to current program directions--to a more results-oriented, simpler system in the new Management Plan and resource allocation process. Both will be brought more closely in line with budget formulation and execution.

[GAO NOTE: Some page references have been changed to correspond with the final report.]

More generally, the Report points out that the Department could improve its program evaluation and monitoring, and recommends that we improve our systems to protect against fraud, waste and abuse. I am pleased to report that the Department has undertaken an extensive and detailed internal control effort, in response to OMB Circular No. A-123, which addresses these very issues. (This effort is discussed in detail under Finding No. 10.)

In another section of this Finding, the Report offers three options for improving "managerial style, accountability and continuity," ultimately recommending that Congress consider creating a new non-partisan position of Under Secretary for Management. Although we concur in the effort to strengthen this aspect of financial management responsibilities, we recommend a variation to the previously discussed options.

We propose that the role of the Assistant Secretary for Administration be strengthened relating to crosscutting management functions and the involvement of the Under Secretary be increased in day-to-day management activities when they relate to the overall management of the Department. In addition, the designation of a chief financial officer who would report to the Assistant Secretary for Administration would provide the critically needed continuity in the Department's senior financial management ranks.

HUD needs a single top-level executive responsible for management resources and for ensuring that program officials are aware of management concerns. It makes sense to me that this be the Assistant Secretary for Administration, since this person is responsible for operating the financial and management support systems necessary to perform this function.

### Finding No. 3: Improving Accounting And Financial Management

Noting that "the accounting and financial management information systems that support policy-making and program implementation have not kept pace with the needs of the Congress or HUD management," the Report makes a number of short- and long-term recommendations. We generally agree with the problem analysis and the recommendations, but would like to emphasize that we have already taken a number of steps to improve accounting along the lines suggested, and have completed a joint Internal Control Project between our Offices of Administration and the Inspector General to make specific improvements.

In 1982, we also completed a Financial Management Study (a copy of which is enclosed for your review), which addresses many financial management problem areas in Headquarters, especially in Housing. Actions are now being taken on the specific recommendations in the Study. One effort under way is to separate public housing, a particularly troubled area, from other housing programs, and to set it up under the leadership of an accomplished financial manager.

We would also like to emphasize that automated data processing in HUD is more than simply accounting and financial management support. Program operations and planning depend on fast and accurate processing of program data, and this is also a priority of our strategic planning for information management. The Report's exclusive emphasis on ADP for financial management neglects an important part of a larger effort to improve Departmental information and information systems.

Our comment in the previous Finding about how to organize for financial management also applies to the recommendation in this Finding for creating a new position for financial management. We believe that strengthening the Assistant Secretary for Administration with the designation of a SES financial officer will enable the Assistant Secretary to effectively manage this effort.

#### Finding No. 4: Developing A Department-Wide Planning Process

In this section, the Report cites examples of planning problems in HUD and recommends that the Department build on existing efforts to improve planning. We believe that the Report is in error in three of the cited examples of "planning problems," and would like to correct these misimpressions.

Citing as an example of "ad hoc and uncoordinated planning," the Report notes that the transfer of the small cities block grant program to the States affected HUD staffing and monitoring needs, "yet no existing plan considered these issues." The implication that the transfer was inadequately considered is simply untrue.

While no formal long-term planning existed for the transfer because we could not anticipate the exact legislative changes, implementation of the legislation was carried out in an orderly fashion. As legislative changes are enacted, the Department adjusts staffing, monitoring, and administrative activity to accommodate change. "Formal" advance planning would probably not have helped, since Congressional enactment of legislative changes and program operational requirements could not have been anticipated much in advance of the event.

As a second example of "the absence of systematic approach to policy development," Volume I of the Report states on page 21 that "critical analysis of program impact was absent in HUD's voucher proposal." Not only is this untrue, it is inconsistent with page 49 of Volume II of the Report, which says ". . . the voucher concept and fiscal year 1983 program design was the product of extensive HUD discussions, research, study, and comparison with other approaches." The concept of providing direct financial assistance to those seeking rental housing was tested for years under an experimental program conducted by our Office of Policy Development and Research. The research results were a fundamental part of the analysis that underlies the voucher proposal.

As a third example of planning deficiencies, the Report cites the contingent liability to the Department of mortgages assigned under Section 221. It is especially distressing to me that this particular example apparently came up for the first time in this draft, since we would have preferred to correct the misimpression earlier.

In any case, the implied "discovery" here is news to neither the Congress nor the Department, nor is it appropriate to use this case as an example of planning failure. The liability has been recognized for years, and concrete steps have been taken over time to address this issue. The Department has continuously made efforts to bring this matter to Congressional attention, and, this year, succeeded in the Senate, at least, in getting proposed legislation to provide for direct sales through GNMA of assigned mortgages as they come due.

The essential point here is that planning has not been absent nor inadequate in these cases, nor has the Department been remiss in notifying Congress of impending problems. The political process has a larger impact here than the Report acknowledges. On balance, we recommend that this Finding be dropped from the final report, and appropriate changes made in references to planning in other parts of the Report.

Finding No. 5: Budgeting And Legislative Processes Impact On HUD's Management

The recommendations in this Finding are addressed to the Congress, and concern timing in the Congressional budget process. Except to note that HUD is certainly not alone in feeling constraints on operational planning because of budget deadlines, we will defer comment on this section.

Finding No. 6: Improving The Analytical Data Base Used To Support Budget Development And Execution Monitoring

This section concerns the need for improvement in accounting and financial management systems, and recommends that HUD continue current efforts to improve systems, integrate budgeting and accounting, and develop information necessary to allocate staffing. All these efforts are, as noted, well under way.

The Report is in technical error in its discussion of the "shortcomings" of accounting for salaries and expenses. Noting that "the budget process is not supported by a cost accounting system covering salaries and expenses," it states that "accounting systems do not accumulate costs by appropriation account" (emphasis added). Salaries and expenses funds for the Department are appropriated in a single account (including a transfer from the FHA fund), and the Department's budget justifications discuss staffing by organization in very considerable detail--over one-third of the total justifications. The accounting and payroll systems fully support the budget justifications and provide the information we also need for internal management.

Finding No. 7: Expanding And Strengthening Budget Justification To Enhance Congressional Control

Under this Finding, the Report recommends that Congress require the Department to include in its budget justifications more material than at present on the long-term costs and contingent liabilities of HUD programs. We do not believe that adding material would help. Budget justification materials currently provided to Congress are already about four inches thick, weigh five pounds, number 531 pages, and are dense with detail and analysis. To the best of our understanding, we are already providing as much analytic material as has been required, and as much as can reasonably be digested. We also supply additional material on request.

No doubt, additional paper could be produced, but at the cost of additional delay to produce it, with the result that much of the material would not be of use by the time it is received.

In this section, the Report notes again the "undisclosed" impact of contingent liabilities of the Section 221 program. We would point out that we have made information available to Congress on the dimensions of the problem and have recommended remedial legislation (see comments under Finding No. 4).

On a technical matter, the Report notes that "the Budget Act of 1974 sought to increase Congressional control by curbing permanent contract authority of [the Section 8] type." In fact, the 1974 Budget Act specifically excluded pre-1974 contract authority of this type. Notwithstanding this situation, as a matter of practice, the Department accounts for, and justifies before Congress, all pre-1974 authority, and Congress releases the authority in appropriation acts.

The Department is not in disagreement with the underlying recommendation that "deobligation" or, more precisely, "dere:ervation" of commitments which may never proceed to obligation should take place. In fact, a number of initiatives in this regard have been included in HUD's Assisted Housing Budget since the beginning of this Administration.

For example, the basis for recording obligations in the Section 8 and Public Housing programs has been changed. Prior to 1982, obligations in the legal and accounting sense were recorded on the basis of a notification and reservation letter in both the Section 8 and Public Housing programs. These obligations were included in the computation of year-end obligated balances every year up to and including 1981. In a legal opinion dated

February 16, 1982, the Comptroller General held that recording obligations on the basis of reservation and notification letters was improper and did not meet the criteria of 31 U.S.C. 200 which requires documentary evidence of a binding agreement in writing. Pursuant to this decision, HUD now records obligations on the basis of executed contracts.

The Report also overlooks the restraints on the deobligation process imposed by Congress. For example, the Urgent Supplement Appropriations Act of 1982 (P.L. 97-216) stipulates that the Department must wait at least 24 months before terminating a reservation of contract authority for any project under Section 8 on account of the inability of the developer or owner to obtain firm financing. This type of action limits the Department's ability to carry out certain deobligation actions.

**Finding No. 8: Providing Effective And Timely Guidance To Field Offices And Program Participants**

We do not disagree with the Report's Findings that there have been--and still are--problems with providing clear and timely guidance to our field offices and program participants. At my direction, the Department is making a concerted effort to eliminate obsolete or redundant guidance, simplify and clarify necessary handbooks, and speed the clearance process.

For example, in Housing, 180 people who write and review handbooks have recently been trained in writing clearly and coherently for particular audiences. A major handbook on property disposition has been extensively revised and improved and many other Housing handbooks are being reviewed and rewritten. All Housing handbooks are now subject to editorial review for clarity.

We have also eliminated or reduced a number of Departmental regulations and issuances. During the last year, 41 handbooks have been cancelled in a major program area, Housing. In another area, Community Planning and Development (CPD), 1,500 pages of handbooks were eliminated during 1982 and an additional 300 pages as the result of a January 1983 review. Concurrently, 75 obsolete or unnecessary CPD publications were cancelled.

**Finding No. 9: Measuring And Monitoring Program Performance And Results**

This section points out deficiencies in HUD monitoring, which we are attempting to address and correct. We agree with the recommendations on this subject of our Committee on Fraud, Waste and Mismanagement, and are also working to improve internal controls, as noted in our comments under Finding No. 10.



Finding No. 10: Assuring That Program Problems Uncovered From All Sources Are Effectively Corrected

This part of the Report finds that HUD does not "systematically analyze or set priorities for resolving and overseeing actions taken in response to problems uncovered by the many reviews, audits, and evaluations of HUD programs and procedures." It recommends that we develop a system to set priorities for response, and establish a focal point for reporting progress.

We believe that the Department's response to the requirements of OMB Circular No. A-123 and to the Federal Managers' Financial Integrity Act will specifically address these points. We are proud of our accomplishments in these areas so far, and realize that the effort must be continuous.

The system we have devised was recently reviewed by OMB's Internal Control Team, who noted in their exit Draft Report that, "HUD has made an excellent, professional effort in meeting the requirements and spirit of the Federal Managers' Financial Integrity Act and the OMB Internal Control Guidelines. The agency continues to be a major innovator and leader in the development of overall instructions, staff guidance, and training for vulnerability assessments, preliminary review for subsequent actions, and internal control reviews. Significant support has been provided to the process by the Office of the Inspector General in developing and planning the evaluation, improvement and reporting process. The Department's overall internal control process is one of the best we have observed to date . . . ."

We intend to see that the new system works. Since it incorporates all known reviews, audits, and evaluations in determining vulnerable areas, we believe that it will provide the kind of control system outlined in the Report recommendation.

Finding No. 11: Developing Staff Skills To Improve Program Delivery

This section notes that HUD "continues to have problems in developing the right skills and experience for many of its program areas" in a time of changing program direction and staffing imbalances. The Report recommends linking a staff development program to overall organizational planning, and further integration of staffing needs assessments with program implementation plans.

Actions are already under way to address these issues. The Department is currently planning a pilot staffing analysis in the Housing area (1) to determine the types of skills which will be needed and the organizational and staffing patterns which will be appropriate in HUD field offices in the future; (2) to inventory the skills of current Housing field staff, in order to assess how well they meet these present and future needs; and (3) to make recommendations as to how best and most economically satisfy those skill needs which cannot be met by existing Housing field staff.

Since Housing constitutes about half of the total of HUD staff, we believe that the pilot project, if successful, will allow us to extend the program to other areas of the Department. In time, we believe that the problem of staffing imbalances can be corrected by this sort of assessment, for both the field and for Headquarters.

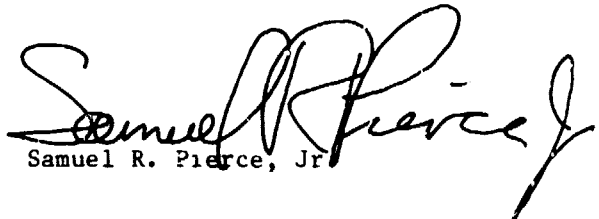
Efforts are also under way in our Office of Training to determine the kinds of skills that will be necessary to meet new program directions.

As a final observation, I would like to point out that we disagree with the comments on page 145 of the Report concerning the issue of possible compromise of independence of the Office of the Inspector General. The Report comments raise the issue in connection with the role of the Inspector General as chairman of the Department's Committee on Fraud, Waste, and Mismanagement.

The question of independence has been fully considered. To ensure that it is maintained, a separate office, the Office of Fraud Control and Management Operation, has been established within the Office of the Inspector General to handle these functions. This office is totally separate from the audit and investigative functions. We feel strongly on this point and recommend that this issue be eliminated.

I hope that these comments are helpful as you revise your Draft Report. My staff remains available, of course, to assist you in this matter.

Very sincerely yours,



Samuel R. Pierce, Jr.

Enclosure