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United States General Accounting Office
Washington, D.C. 20548

Resources, Community, and
Economic Development Division

B-282537

July 20, 1999

The Honorable Dick Armey
Majority Leader
House of Representatives

The Honorable Dan Burton
Chairman, Committee on Government Reform
House of Representatives

The Honorable Fred Thompson
Chairman, Committee on Governmental Affairs
United States Senate

Subject: Observations on the Department of Housing and Urban Development's Fiscal Year 2000 Performance Plan

As you requested, we have reviewed and evaluated the fiscal year 2000 performance plans for the 24 Chief Financial Officers (CFO) Act agencies that were submitted to Congress as required by the Government Performance and Results Act of 1993 (Results Act). Enclosure I to this letter provides our observations on the fiscal year 2000 performance plan for the Department of Housing and Urban Development (HUD). Enclosure II lists management challenges we and HUD's Inspector General identified that face the agency and the applicable goals and measures in the fiscal year 2000 annual performance plan.

Our objectives were to (1) assess the usefulness of HUD's plan for decisionmaking and (2) identify the degree of improvement that HUD's fiscal year 2000 performance plan represents over the fiscal year 1999 plan. Our observations were generally based on the requirements of the Results Act, guidance to agencies from the Office of Management and Budget (OMB) for developing the plan (OMB Circular A-11, Part 2), our previous reports and knowledge of HUD's operations and programs, and our observations on HUD's fiscal year 1999 performance plan. Our summary report on the CFO Act agencies' fiscal year 2000 plans contains a complete discussion of our objectives, scope, and methodology.¹

¹ Managing for Results: Opportunities for Continued Improvements in Agencies' Performance Plans (GAO/GGD/AIMD-99-215, July 20, 1999).

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As agreed, unless you announce the contents of this letter earlier, we plan no further distribution until 30 days from the date of the letter. If you have any questions regarding this report, please contact Nancy Simmons or me at (202) 512-7631. Key contributors to this assignment were J Davis and Toné Radford.

A handwritten signature in black ink that reads "Judy A. England-Joseph". The signature is written in a cursive style with a large initial "J" and "A".

Judy A. England-Joseph
Director, Housing and Community
Development Issues

Enclosures - 2

Observations on the Department of Housing and Urban Development's Performance Plan for Fiscal Year 2000

HUD's fiscal year 2000 provides a general picture of intended performance across the Department and a general discussion of the strategies and resources to achieve its strategic goals.¹ Specifically, the plan appears to cover all of HUD's program activities, links the program activities to strategic goals and objectives, identifies outcome and output indicators that generally are results oriented and measurable, discusses strategies for achieving the objectives, and cites specific data sources related to each indicator. However, the plan provides only limited confidence that the performance data will be credible. For example, many of the indicators rely on data from external sources that HUD does not plan to verify, and other indicators rely on systems that are new and that HUD says may need further testing or may require that the indicators be recalibrated once the data are known. Figure 1 highlights the plan's major strengths and key weaknesses.

Figure 1: Major Strengths and Key Weaknesses of Fiscal Year 2000 Performance Plan

Major Strengths

- Contains results-oriented goals and quantifiable measures
- Discusses strategies for achieving intended performance
- Identifies crosscutting activities
- Identifies specific data sources, as well as limitations or advantages of the data
- Discusses planned validation/verification of performance measures

Key Weaknesses

- Does not show how budgetary resources are allocated to achieving performance goals
- Provides limited confidence that the performance data will be credible
- Does not link its human resources to its strategic goals and objectives
- Does not describe planned coordination strategies

HUD's fiscal year 2000 annual performance plan is an improvement over the previous plan and is well on its way to addressing the weaknesses we identified in our assessment of HUD's fiscal year 1999 annual performance plan.² In reviewing the fiscal year 1999 plan, we observed that the plan did not

¹HUD's fiscal year 2000 annual performance plan revised the terminology used in the Department's previous plan in order to conform to guidance from the Office of Management and Budget. Specifically, strategic goals and objectives in the fiscal year 2000 plan were called strategic objectives and performance goals, respectively, in the fiscal year 1999 plan. We use the current terminology throughout this document.

²Results Act: Observations on the Department of Housing and Urban Development's Fiscal Year 1999 Annual Performance Plan (GAO/RCED-98-159R, June 5, 1998).

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- cover all the program activities in HUD's budget and that the consolidations and aggregations of program activities were not clearly explained,
 - fully discuss how HUD would coordinate with other agencies having related goals or define its contributions to the crosscutting activities,
 - fully discuss the strategies that HUD intended to pursue to achieve its performance goals,
 - provide a complete discussion of the resources needed to achieve the performance goals, and
 - relate HUD's information systems to specific indicators, discuss all of the systems from which performance data would be extracted, or discuss the data's limitations and their possible effects on the performance indicators.

In contrast, the fiscal year 2000 annual performance plan

- includes tables listing the budget accounts and/or program activities that support each objective and an appendix that summarizes the links for all of the strategic goals and objectives;
- discusses HUD's coordination with other agencies on the objectives, where applicable;
- discusses specific strategies for each objective;
- includes a resource allocation table that shows which strategic goals are supported by the discretionary funding and staff resources in HUD's budget accounts; and
- includes a data source, a statement of the data's limitations or advantages, and a discussion of the validation and verification efforts for each performance indicator.

In addition, the current plan explains the link between HUD's objectives and HUD's 2020 Management Reform Plan, which was implemented to address HUD's major management challenges, and includes a separate section that discusses HUD's management, financial, and quality assurance improvements.

However, the fiscal year 2000 annual performance plan could be further improved if it showed the allocation of the budgetary resources needed to achieve specific performance goals, more specifically discussed HUD's strategies for coordinating with other agencies, and eliminated inconsistencies within the plan and among the related budget documents. In addition, HUD should increase its efforts to verify and validate data and continue to develop a model for linking resource allocation to strategic goals and objectives.

HUD's Performance Plan Provides a General Picture of Intended Performance Across the Department

The goals and objectives in HUD's fiscal year 2000 annual performance plan are generally results oriented and measurable. The plan includes five strategic goals, four of which are intended to summarize the basic intent of HUD's major statutory authority. The fifth-to

restore public trust—is related to implementing HUD's 2020 Management Reform Plan and HUD's major management challenges. The five goals are further divided into 13 strategic objectives, under which HUD details 62 outcome indicators and 85 output indicators to measure progress toward achieving the objectives.³ For example, the plan's strategic objective aimed at ensuring that America's housing is safe and disaster resistant provides detailed output and outcome indicators that describe the services delivered by the programs and the intended results. However, some of the indicators are based on systems that are under development, untested, or need additional components. For example, according to the plan, the Department Grants Management System is under development and will not be available until after fiscal year 2000. In addition, the plan reports that new resources are or may be necessary to develop 22 of the indicators, but the plan does not discuss the effect on the goals and objectives if the necessary resources are not made available. Trend and baseline data are provided for many of the indicators; however, baselines for others will not be established until fiscal year 2000 or later. For example, HUD includes an indicator to reduce average residential energy consumption under its goal to increase the availability of decent, safe, and affordable housing; however, the baseline will not be determined until 2002.

One of the strategic goals—to restore public trust—is related to HUD's efforts to improve its operations by implementing its 2020 Management Reform Plan, which is cited as a priority management objective in the administration's governmentwide performance plan. While the performance plan does not specifically reference HUD's four management challenges that we identified,⁴ the plan includes indicators related to three of the challenges: measuring progress toward improving internal controls, addressing staffing issues, and improving data systems. Additionally, for most strategic objectives, the plan discusses their linkage to HUD's 2020 Management Reform Plan.

Most strategic objectives include a brief discussion of coordination with other federal agencies, and the plan identifies 1 interagency indicator and 10 potential interagency indicators. However, the plan does not discuss specific coordination strategies. For example, under the objective to reduce discrimination in housing, the plan states that HUD is coordinating with the Department of Agriculture on rural housing and with the Department of Justice. However, the discussion of strategies does not mention rural housing or either Department. Consequently, the plan does not clearly designate the strategies or activities

³Throughout this document, we count each occurrence of an indicator, even if it was previously listed to support a different objective. Nine indicators are used to support more than one objective.

⁴We identified four management challenges at HUD: internal control weaknesses; poorly integrated, ineffective, and generally unreliable information and financial management systems; organizational problems; and an insufficient mix of staff with the proper skills. (See app. I for a full description of the management challenges.) See Major Management Challenges and Program Risks: Department of Housing and Urban Development (GAO/OCG-99-8, Jan. 1999).

that will involve these Departments and does not explain how these coordination efforts will contribute toward HUD's role in decreasing discrimination.

HUD's fiscal year 2000 performance plan is well on its way to addressing the weaknesses that we identified in our assessment of the fiscal year 1999 performance plan. In reviewing the fiscal year 1999 plan, we observed that many of HUD's indicators did not provide quantifiable measures that will allow for comparing the actual performance with projected performance and determining whether HUD would be able to assess progress toward meeting its strategic goals. The fiscal year 1999 plan also did not contain performance objectives or indicators for HUD's crosscutting programs and did not define the contributions of HUD's programs and funding to the crosscutting activities.

HUD improved its fiscal year 2000 plan by identifying outcome and output indicators, all but three of which provide some quantifiable measure of performance and cite a specific data source. Although some outcome indicators do not have output indicators associated with them, each output indicator is linked to at least one outcome indicator. The plan cross-references the nine indicators that support more than one objective. For example, an indicator to create a total of 283,000 jobs supports two objectives—"poor and disadvantaged families and individuals become self-sufficient" and "the number, quality, and accessibility of jobs increase in low-income urban and rural communities"—that are under two separate goals. The plan also provides baseline and trend data, if such data are available. If data are not available, the plan discusses when the baselines are expected to be developed, as well as other issues related to the data. For example, the output indicator to increase the share of recipients of welfare-to-work vouchers who hold jobs at the time of annual recertification states that the baseline for households receiving vouchers in fiscal year 2000 will be determined in fiscal year 2001. The indicator notes that new resources will be needed to enhance reporting capabilities in the system.

For most of the objectives, the fiscal year 2000 plan lists HUD's coordination activities with other federal agencies on specific programs; however, it does not discuss specific coordination strategies. For example, under the objective to make America's housing safe and disaster resistant, the plan states that HUD and the Environmental Protection Agency jointly chair a staff-level interagency task force on the prevention of lead-based paint poisoning. However, the plan does not explain how this task force will contribute toward achieving the objective. While not designating specific objectives or indicators for its crosscutting programs, the plan does identify 10 of its indicators as "potential interagency indicators" and one as an "interagency indicator." For example, under the objective "communities are safe," one of HUD's indicators shows that the share of households reporting crime in the neighborhood will decline in 1999 and includes a parenthetical note that this is a potential interagency indicator.

HUD's Performance Plan Provides a General Discussion of the Strategies and Resources That the Department Will Use to Achieve Its Goals

Each strategic objective includes a discussion of the strategies that HUD will pursue to achieve the objective, and most include a discussion of the external factors that affect the objective. Most of the strategies support the strategic goals and objectives, but there are some inconsistencies. For example, for the objective aimed at helping homeless families and individuals become self-sufficient, the strategies focus only on providing housing or services for the homeless; consequently, it is not clear how these strategies will enable the homeless to become self-sufficient. Each objective also includes a table showing the major program activities and budget authority that support the objective. Each table helps to identify the budget program activities that support the objective; however, each table does not break down the specific budgetary resources that will be allocated to the objective so that the cost of achieving that objective is apparent. For example, under 10 of the objectives, tables list the total budget authority for the Community Development Block Grant program rather than listing only the estimated portion associated with each objective. The fiscal year 2000 plan includes (1) a resources allocation table that shows which strategic goals are supported by the discretionary funding and staff resources in HUD's budget accounts and (2) an appendix containing a table that relates HUD's budget accounts and/or program activities to specific strategic objectives. Through these tables, the fiscal year 2000 plan generally covers all of HUD's program activities and links them to the strategic goals and objectives. Additionally, the programs receiving mandatory funds are generally covered in narrative discussions.

However, because of inconsistencies in the information, some of the linkages are difficult to follow. For example, the table under the objective that poor and disadvantaged families and individuals become self-sufficient and develop assets does not list the homeless assistance grants program or the credit subsidy portion of the America's Private Investment Companies program, both of which are linked to this objective in the appendix. Similarly, the fiscal year 2000 plan lists one of HUD's new initiatives--a program to redevelop abandoned buildings--as a strategy under the objective to reduce disparities in well being among neighborhoods and within metropolitan areas but does not include that program in the table showing the programs that support the objective. In addition, the program does not appear to be reflected in any of the performance indicators for that objective or in the resource allocation table. There are also inconsistencies between the plan and HUD's budget justification. For example, the annual performance plan links the Community Development Block Grant program to all five strategic goals; however, in the congressional justification for the fiscal year budget request, HUD links the program to only three strategic goals. To ensure that the plan is clear and conveys how HUD's funding will be allocated to achieve strategic goals and objectives, HUD should ensure consistency within the plan and among the related budget documents.

The fiscal year 2000 plan does not discuss how HUD would mitigate the negative effects of the identified external factors for achieving the performance goals. For example, under the goal to ensure that affordable rental housing is available for low-income households, HUD identifies several external factors that may interfere with achieving the performance goal (e.g., rises in unemployment, cost of developing and maintaining houses, and personal-income-level changes). However, while HUD cannot control these factors, it could indicate how it would modify its strategies to achieve the performance goal if these factors become an issue. While the plan specifically refers to HUD's efforts to develop a resources management system, the system is not yet implemented.

HUD's fiscal year 2000 performance plan indicates some degree of progress in addressing the weaknesses that we identified in our assessment of the fiscal year 1999 performance plan. In reviewing the fiscal year 1999 plan, we observed that it did not cover all of the program activities, as required by the Results Act. For example, we noted that \$1.5 billion of proposed spending for "other" programs was not linked to any of the strategic goals. We also noted that the plan did not discuss strategies that clearly describe how HUD would achieve its performance goals. Several of the discussions appeared to be descriptions of programs instead of specific actions to achieve the performance goals. In its fiscal year 1999 plan, HUD recognized that it had no mechanism to link resources to performance goals. The plan also did not discuss how information technology would be used to help achieve the performance goals.

Among the improvements in the fiscal year 2000 plan are expanded discussions of strategies to more clearly explain HUD's efforts to achieve the objectives. The fiscal year 2000 plan also includes (1) an appendix containing a table that shows the linkages among program activities, goals, and objectives and (2) tables that show the program activities that support each objective. These tables help to identify the budget program activities that support the objectives, although they do not break down the specific budgetary resources that will be allocated to each objective so that the cost of achieving that objective is apparent.

The plan also has a section on management, financial, and quality assurance improvements that specifically discusses resource allocation. Like the fiscal year 1999 performance plan, the fiscal year 2000 plan states that HUD is consulting with the National Academy of Public Administration to develop a model for linking resource allocation to strategic goals and objectives. The plan also includes information on HUD's efforts to address human capital issues. For example, one objective is to empower HUD's workforce and partners and make them accountable for results. This objective includes three performance indicators: (1) to measure HUD's employee satisfaction, (2) to increase overall workforce's diversity, and (3) to increase the representation of women and minorities "at and above the GS-13 level."

While there is no specific discussion of how information technology will be used to improve performance or help achieve the first four strategic goals, two of the objectives discuss new

information systems in the section on the linkage to HUD's 2020 Management Reform Plan. The fiscal year 2000 plan also discusses the use of information technology to help achieve the fifth performance goal—to restore public trust. A separate section of the plan discusses HUD's efforts to improve the integrity of information systems, the quality of data, and the integration of systems.

HUD's Performance Plan Provides Limited Confidence That the Department's Performance Information Will Be Credible

The performance plan includes comments on HUD's data sources, the limitations and advantages of the data, and validation and verification efforts for each indicator. The plan also includes a separate section discussing HUD's overall data validation and verification efforts. Many of the indicators are based on external data, especially Census data, for which the plan notes that additional verification is unnecessary. However, some of the indicators are based on data that will be obtained from entities such as associations, other government agencies, or HUD grantees and that, with one exception, will not be independently validated or verified. Also, several of the indicators are from systems that are new and, as stated in the plan, may need further testing. For example, the plan states that further testing is needed for the systems supporting indicators that are based on the new Public Housing Assessment System and the Section 8 Management Assessment Program. Furthermore, some of the data may be unavailable for use as performance measures for fiscal year 2000. For example, the plan notes that new resources are or may be needed for 22 of the indicators and that systems are under development, untested, or need additional components for other indicators. For example, according to the plan, the Department Grants Management System is under development and will not be available until after fiscal year 2000. In addition, the measurement of other indicators relies on the decennial census and the American Community Survey, from which data will not be available until 2002 and 2005, respectively. The need for further testing and the uncertainty about the availability of data do not provide confidence that the indicators will be measurable.

While the plan discusses data limitations for each indicator, actions to mitigate the limitations are not addressed. For example, the plan includes an indicator that the share of families that receive Section 8 assistance and live in census tracts with low poverty rates will increase by 1 percent. The limitations note that the data source suffers from poor reporting by some housing authorities and that some data will not be available until 2003 and later. However, there is no explanation of the validity of the measure, given the limitations. Additionally, several of the indicators report that validation and verification will be accomplished by monitoring by field offices; however, we and HUD's Office of Inspector General have reported on weaknesses in HUD's monitoring activities. The plan does not explain whether the monitoring issues have been or will be resolved.

The fiscal year 2000 performance plan indicates some degree of progress in addressing the weakness that we identified in our assessment of HUD's fiscal year 1999 performance plan as it relates to providing full confidence that HUD's performance information will be credible. In reviewing the fiscal year 1999 plan, we observed that the plan did not relate the information systems discussed in one section of the plan to specific indicators and did not address all of the systems from which performance data would be extracted. For example, while the plan associated 14 indicators with the four grant programs that are supported by the Integrated Disbursement and Information System, it did not specify the source of the data to measure those indicators. We also noted that some performance indicators appeared to rely on sources of data that were not discussed in the verification and validation section of the annual performance plan. We noted that for some of the goals, HUD had not yet determined what information to use to measure whether the goals had been achieved; therefore, HUD could not describe verification and validation procedures. For example, one goal included a note that the data to establish the baselines may come from a survey contracted by HUD. There was no discussion of how HUD would ensure the reliability of the performance data. Finally, HUD could have noted which indicators had been verified by audits of its financial statements.

HUD's fiscal year 2000 plan addresses many of the concerns that we raised in reviewing the fiscal year 1999 plan. With some additional information, the new plan could be more useful. Under each indicator, HUD discusses the data source, limitations and advantages, and related validation and verification efforts. The plan also includes a separate validation and verification section that summarizes the data quality controls for HUD's major systems. The plan acknowledges the known weaknesses in the data and the difficulties that HUD faces in reporting on the indicators. For example, some of the indicators are based on data that are compiled every other year, every 5 years, or every 10 years. The plan also indicates those measures for which additional resources are needed to develop them and those that may need to be recalibrated after the data are available.

While HUD's fiscal year 2000 plan does not specifically address HUD's efforts to deal with the year 2000 (Y2K) computer vulnerabilities, the plan includes a statement that HUD has completed critical work with respect to data reliability. In a separate report, HUD advised the Office of Management and Budget that 55 of its 56 mission-critical systems were compliant with Y2K date-computing requirements as of February 1999. However, in a March 1999 report, HUD's Office of Inspector General included the need to reduce the risk of Y2K

failures as one component of a reportable condition on HUD's system security and other controls.⁵

Audits of HUD's financial statements provide a means of data verification, and the plan notes that some performance indicators will be verified through annual audits of HUD's financial statements. For example, the plan includes an indicator that Ginnie Mae will continue to secure at least 95 percent of the single-family Federal Housing Administration and Department of Veterans Affairs loans, which can be verified through the audits. However, HUD's plan could have noted additional indicators that are or could be verified through HUD's financial statement audit, such as indicators showing increases in the net recovery on real estate sales.

Other Observations on HUD's Implementation of Performance-Based Management

To measure progress in achieving its strategic goals, HUD initiated a business and operating planning process beginning with fiscal year 1999. Each program and field office developed a business and operating plan to identify the contributions that it could make to achieve HUD's goals. However, the business and operating plans for fiscal year 1999 were built around six strategic goals that differ from the goals in HUD's fiscal year 1999 annual performance plan, as well as those in its strategic plan and fiscal year 2000 annual performance plan. None of these plans specifically address how the changes in the strategic goals and objectives will affect the data collection for performance indicators or HUD's ability to achieve and report on different goals for similar time periods. HUD officials told us that although they did not revise the fiscal year 1999 annual performance plan to reflect the changes in the business and operating plans, a cross-reference between the two plans would be available. While it is expected that an agency's goals will be refined over time, we are concerned that having different strategic goals and objectives covering the same fiscal year may complicate HUD's ability to implement sound performance management into its daily operations. Such differences may result in confusion in resource allocation, tracking the related indicators, and assessing and reporting on progress toward achieving the goals.

Beginning in 1994, we identified issues related to information and management systems as one of HUD's four major management challenges. Specifically, we have reported that poorly integrated, ineffective, and generally unreliable information and management systems do not meet the needs of program managers and has weakened their ability to provide management

⁵U.S. Department of Housing and Urban Development Audit of Fiscal Year 1998 Financial Statements, HUD Office of Inspector General (99-FO-177-0003, Mar. 29, 1999).

control over housing and community development programs. HUD has continued to work on its financial management systems and reiterates the Department's efforts in the fiscal year 2000 annual performance plan. In our 1999 accountability series report, we noted that while HUD has made progress in addressing its systems weaknesses, it will continue to be adversely affected by inadequate systems and information until its efforts are successfully completed. We stated that HUD needs to strengthen the management and oversight of its efforts to integrate financial systems, including its information technology investment decisions. In addition, HUD needs to continue its efforts to bring nonconforming systems into conformance with the requirements of the Federal Managers' Financial Integrity Act. As part of this process, HUD needs to ensure that its assessments of systems to determine conformance are well documented and verified. Finally, HUD needs to eliminate the material internal control weaknesses related to its systems.

Agency Comments

We provided HUD with a draft of this report for review and comment. In its written comments, HUD generally agreed with the report and stated that the Department was pleased that our report reflected the substantial progress that it had made in developing the annual performance plan. HUD stated that our report captured the annual performance plan's major improvements and said that the Department is committed to taking specific actions to improve in the areas we identified.

While generally agreeing with this report, HUD commented that our observations on its data systems seemed to reflect "where the Department has been rather than where the Department is now, and where the Department is heading." Specifically, HUD stated that its plan includes data sources that HUD does not plan to verify, such as the fiscal year 2000 Census data and the American Community Survey, which HUD does not believe are necessary to validate. We agree that HUD does not need to independently verify or validate these sources. However, HUD's fiscal year 2000 plan relies extensively on other external data sources that should be verified and validated in order to offer confidence that the data sources will provide meaningful information on performance. HUD also commented that the new Departmental Grants Management Systems will result in significant improvement in data related to performance measurement. However, as we recently reported, HUD plans to base this new system on the Integrated Disbursement and Information System, which is fraught with major design flaws.⁶ Consequently, until the new system is operational, we must reserve judgment on whether it will provide the information that HUD is projecting. We recognize that HUD has improved its presentation of information on data sources, the limitations and

⁶Community Development: Weak Management Controls Compromise Integrity of Four HUD Grant Programs (GAO/RCED-99-98, Apr. 27, 1999).

advantages of those sources, and validation and verification efforts. However, we remain concerned about HUD's performance information because of the extent to which the goals and indicators rely on data that will not be validated or verified, systems that do not yet exist, or information that will not be available for several years.

In its comments, HUD also questioned our observation that the plan does not discuss specific coordination strategies. HUD noted that it has more substantial interagency efforts than are recognized by our report and that it could provide extensive comments and documentation of interagency cooperation on the one example we cited. As stated earlier in this report, HUD's fiscal year 2000 plan does not describe planned coordination strategies. We expanded our discussion of this topic in the report in order to clarify how the plan could be improved.

Finally, on the basis of other comments from HUD, we clarified our observations, where appropriate.

Management Challenges

Table II.1 shows the management challenges that we noted in our January 1999 performance and accountability report on HUD and that HUD's Office of Inspector General noted in its March 1999 financial audit report.¹ The table also lists performance goals, strategies and indicators that are related to each management challenge.

Table II.1: Management Challenges

Management challenges identified by GAO	Applicable goals and measures in the Fiscal Year 2000 Annual Performance Plan
<p>Internal control weaknesses have included a lack of staff and resources to manage and monitor HUD's real estate inventory, an inadequate early warning system to prevent losses through defaults in its insurance programs, inadequate controls over a rental assistance program, inadequate automated systems to provide reliable data, and an inadequate management control system.</p>	<p>Under the strategic objective that HUD's workforce and partners are empowered, capable, and accountable for results, the plan includes the following two indicators related to ensuring that subsidies are based on tenants' correct income:</p> <ul style="list-style-type: none"> • The share of tenant-based Section 8 assistance managed by housing authorities that score highly for income verification increases by 5 percentage points. • The share of households for which rent determinations are correct increases by 3 percentage points for public housing and for project-based Section 8 housing by 2001. <p>The plan includes a total of nine indicators under three strategic objectives that would require the monitoring of multifamily projects:</p> <ul style="list-style-type: none"> • Strategic objective 5.1--HUD's workforce and partners are empowered, capable, and accountable for results--has five outcome or output indicators. • Strategic objective 1.3--America's housing is safe and disaster resistant--has three outcome or output indicators. • Strategic objective 1.2--affordable rental housing is available for low-income households--has one output indicator. <p>Strategic objective 1.1--homeownership is increased--has one output indicator related to loss prevention, which is the share of Federal Housing Administration mortgage defaults resolved by loss mitigation alternatives to foreclosure increases by 2 percentage points.</p> <p>Most of the objectives throughout the plan include a</p>

¹Major Management Challenges and Program Risks: Department of Housing and Urban Development (GAO/OCG-99-8, Jan. 1999) and U.S. Department of Housing and Urban Development Audit of Fiscal Year 1998 Financial Statements, Office of Inspector General (99-FO-177-0003, Mar. 29, 1999).

Enclosure II
Management Challenges

Management challenges identified by GAO	Applicable goals and measures in the Fiscal Year 2000 Annual Performance Plan
<p>HUD has had poorly integrated, ineffective, and generally unreliable information and financial management systems that have not met the needs of program managers and have weakened their ability to provide management control over housing and community development programs. While HUD has made some progress, it will continue to be adversely affected by inadequate systems and information until these efforts are completed.</p>	<p>discussion of the linkage to HUD's 2020 Management Reform Plan, some of which explain how achieving the objectives will result in greater program accountability. The plan also includes a separate section that discusses HUD's crosscutting management, financial, and quality assurance strategies. This section states the resulting improvements promised to make HUD's planning, financial controls, and program tracking more consistent, efficient, and reliable. HUD states that it has taken two important steps to enhance internal controls and monitoring: it cataloged all material weaknesses and management deficiencies and began a series of bimonthly meetings to resolve problems and established a Risk Management Unit to help assess risk and avoid future problems.</p> <p>Additionally, some of the plan's indicators relate to ensuring that HUD's programs are operating as intended. For example, under the objective that "HUD's workforce and partners are empowered, capable and accountable for results," the plan has indicators that state the following:</p> <ul style="list-style-type: none"> • The share of public housing units managed by troubled housing authorities decreases by 5 percentage points. • The share of public housing units and assisted multifamily units that meet HUD-established standards increases by 1 percentage point. • Office of Housing field staff review a statistically valid sample of transactions in each of seven categories for compliance with data quality standards. • HUD contractors are being held increasingly accountable through the use of performance-based contracting methods, as shown by a 25-percent increase in annual obligations of active performance-based contracts. <p>Within the objective 5.1--HUD's workforce and partners are empowered, capable, and accountable for results--the plan includes the following indicator that specifically addresses systems issues:</p> <ul style="list-style-type: none"> • HUD's automated data systems are rated highly for usefulness, ease of use, and reliability. <p>Additionally, in the section on the management, financial, and quality assurance improvements, HUD discusses its project to achieve better systems integration. The project is intended to</p> <ul style="list-style-type: none"> • reduce the number of systems, • manage data quality,

Enclosure II
Management Challenges

Management challenges identified by GAO	Applicable goals and measures in the Fiscal Year 2000 Annual Performance Plan
<p>HUD has had organizational problems, such as overlapping and ill-defined responsibilities and authorities between its headquarters and field organization and a fundamental lack of management accountability and responsibility. Under HUD's 2020 Management Reform Plan initiatives, many organizational changes are under way, some of which involve a transfer of responsibilities. The effectiveness of these organizational changes cannot be determined until they are completed.</p>	<ul style="list-style-type: none"> • evaluate independent contractor validation, and • refine empowerment information systems. <p>None. While the plan does not include specific indicators or goals related to completing the organizational changes, HUD's strategic goal 5, "restore public trust in HUD," is directly related to HUD's 2020 Management Reform Plan. The Management Reform Plan is intended, among other things, to correct the management deficiencies that we and others have identified. The Management Reform Plan includes separating service from compliance functions, reorganizing the field offices, and consolidating processes and functions within and across program areas into specialized centers. In the various discussions throughout the annual performance plan, HUD addresses organizational issues. For example, under objective 1.1, "increasing homeownership," the plan narrative refers to the creation of the four new homeownership centers that take advantage of economies of scale and allow better, more efficient use of technology. Under objective 4.1, "increasing the number, quality, and accessibility of jobs in low-income urban and rural communities," the plan refers to the newly hired community builders who will work to revitalize communities. Under objective 1.2, "affordable rental housing is available for low-income households," the plan refers to the creation of the Section 8 Financial Processing Center and the Special Applications Center, which will increase staff effectiveness and program accountability.</p>
<p>An insufficient mix of staff with the proper skills has hampered the effective monitoring and oversight of HUD's programs and the timely updating of procedures. Because staffing reforms are still in transition, the effectiveness of HUD's changes in correcting staff deficiencies cannot be determined.</p>	<p>Under its Strategic Goal 5, "restore public trust in HUD," and its objective 5.1 on empowering HUD's workforce and partners, the plan includes the three following indicators related to HUD's employees:</p> <ul style="list-style-type: none"> • HUD employees are more satisfied and more capable and perceive the organization to be more effective. • HUD increases the overall workforce's diversity by raising the representation of underrepresented groups, as shown by increasing the share of Hispanics by 0.5 percentage point to 7.1 percent of employees. • Among HUD's women and minority employees, the representation at and above the GS-13 level increases by 1 percentage point to 33 percent. <p>Additionally, in discussing the linkages to HUD's 2020 Management Reform Plan, the plan also refers to staffing issues. For example, under objective 2.1, "housing discrimination is reduced," the plan says that the Office of Fair Housing and Equal</p>

Enclosure II
Management Challenges

Management challenges identified by GAO	Applicable goals and measures in the Fiscal Year 2000 Annual Performance Plan
	<p>Opportunity has cross-trained staff. Specifically, that office has consolidated existing organizations and employees and contracted, where appropriate, with outside investigators, auditors, and attorneys. Community builders are being trained in fair housing laws, issues surrounding Section 8 recipients, and opportunities to promote fair housing.</p> <p>Under objective 4.1, "increasing the number, quality, and accessibility of jobs," the plan states that HUD has hired and transferred hundreds of front-line problem solvers--the community builders--to work with communities. Under objective 1.2, "making affordable rental housing available for low-income households," the plan notes that the specialized centers have increased the staff's effectiveness and staff have been specifically trained for evaluating and processing applications.</p>
Government-wide high risk issues identified by GAO	
Year 2000 problem	None. However, the plan has an indicator stating that automated data systems are rated highly for usefulness, ease of use, and reliability. The plan provides background and context for the indicator, which states that HUD has completed critical work with respect to reliability by ensuring that all systems are free of the Y2K bug.
Information security	None.
Other management challenges identified by HUD's Office of Inspector General	
<p>The following eight material weaknesses in HUD's internal controls, identified in the 1998 consolidated audit, relate to the need to</p> <ul style="list-style-type: none"> • complete improvements to its financial management systems, • successfully complete planned organizational changes, 	<p>The plan does not specifically address HUD's internal control material weaknesses; however, it discusses some of the issues in the narrative and includes some goals and indicators that relate to some of the weaknesses.</p> <p>For example, under its strategic objective 5.1, "that HUD's workforce and partners are empowered, capable, and accountable for results," the plan has one indicator that HUD's data will be highly rated, which relates to completing improvements to financial management systems. Also the plan states that HUD is working to improve its financial management systems.</p> <p>While not including specific goals or indicators for completing planned organizational changes, most of the objectives include a discussion of the linkage to HUD's 2020 Management Reform Plan.</p>

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Other management challenges identified by HUD's Office of Inspector General

<ul style="list-style-type: none"> • ensure that subsidies are based on tenants' correct income, 	<p>Under the strategic objective that HUD's workforce and partners are empowered, capable, and accountable for results, the plan includes the following two indicators related to ensuring that subsidies are based on tenants' correct income:</p> <ul style="list-style-type: none"> • The share of tenant-based Section 8 assistance managed by housing authorities that score highly for income verification increases by 5 percentage points. • The share of households for which rent determinations are correct increases by 3 percentage points for public housing and for project-based Section 8 housing by 2001.
<ul style="list-style-type: none"> • improve multifamily project monitoring, 	<p>The plan includes a total of nine indicators under the following three strategic objectives that would require the monitoring of multifamily projects:</p> <ul style="list-style-type: none"> • Strategic objective 5.1—HUD's work force and partners are empowered, capable, and accountable for results--has five outcome or output indicators. • Strategic objective 1.3--America's housing is safe and disaster resistant--has three outcome indicators. • Strategic objective 1.2--affordable rental housing is available for low-income households--has one output indicator.
<ul style="list-style-type: none"> • address Federal Housing Administration staff and administrative resource issues, 	<p>None.</p>
<ul style="list-style-type: none"> • continue to place more emphasis on early warning and loss prevention for the Federal Housing Administration's insured mortgages, 	<p>Strategic objective 1.1, "homeownership is increased," has one output indicator related to loss prevention, which is the share of Federal Housing Administration mortgage defaults resolved by loss mitigation alternatives to foreclosure increases by 2 percentage points.</p>
<ul style="list-style-type: none"> • improve the Federal Housing Administration's federal basis and budgetary accounting, and 	<p>None.</p>
<ul style="list-style-type: none"> • improve the Federal Housing Administration's information technology systems to support business processes more effectively. 	<p>None.</p>
<p>Additionally, the audit report included the following 12 reportable conditions related to the need to</p>	<p>The plan includes the following objectives and indicators that relate to three of the reportable conditions:</p>
<ul style="list-style-type: none"> • continue efforts to improve HUD's management control program; 	<p>None.</p>
<ul style="list-style-type: none"> • refine performance measures to effectively implement 	<p>None.</p>

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**Other management challenges identified by HUD's
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results management;

<ul style="list-style-type: none">• improve controls over project-based subsidy payments;	None.
<ul style="list-style-type: none">• continue efforts to improve oversight of housing authorities;	<p>There are 25 output or outcome indicators under the following five strategic objectives that relate to monitoring of public housing.</p> <ul style="list-style-type: none">• Affordable rental housing is available for low-income households.• America's housing is safe and disaster resistant.• Low-income people are not isolated geographically in America.• Poor and disadvantaged families and individuals become self-sufficient and develop assets.• HUD's work force and partners are empowered, capable, and accountable for results.
<ul style="list-style-type: none">• fully implement the Office of Community Planning and Development's strategy for overseeing grantees;	None.
<ul style="list-style-type: none">• improve general system security and other controls, including year 2000 preparations;	None. However, the plan has an indicator stating that automated data systems are rated highly for usefulness, ease of use, and reliability. The plan provides background and context for the indicator, which states that HUD has completed critical work with respect to reliability by ensuring that all systems are free of the Y2K bug.
<ul style="list-style-type: none">• overhaul security procedures for access to systems;	None.
<ul style="list-style-type: none">• improve access controls for critical systems, including HUD's payment systems;	None.
<ul style="list-style-type: none">• improve processes for reviewing obligation balances;	None.
<ul style="list-style-type: none">• continue actions to quickly resolve the Federal Housing Administration's Secretary-held multifamily mortgage notes and minimize additional mortgage note assignments;	None.
<ul style="list-style-type: none">• sufficiently monitor and account for the Federal Housing Administration's single-family property inventory; and	<p>Under the strategic objective to increase homeownership, the plan includes the following two output indicators related to monitoring the single-family inventory:</p> <ul style="list-style-type: none">• The share of Federal Housing Administration mortgage defaults resolved by loss mitigation alternatives to foreclosure increases by 2 percentage points.• The net recovery of the Federal Housing Administration's real-estate-owned sales increases by 2 percentage points to 62.7 percent.

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**Other management challenges identified by HUD's
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• enhance the design and operation of general and application controls for the Federal Housing Administration's information systems.	None.
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The audit report disclosed the following two instances of noncompliance with applicable laws and regulations: <ul style="list-style-type: none">• The Department has not complied with the Federal Financial Management Improvement Act.• The Federal Housing Administration's single-family premium system does not generate the required core-specific cash flow data.	None.
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