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Resources, Community, and  
Economic Development Division

B-285487

June 30, 2000

The Honorable Fred Thompson  
Chairman  
The Honorable Joseph I. Lieberman  
Ranking Minority Member  
Committee on Governmental Affairs  
United States Senate

Subject: Observations on the Department of Housing and Urban Development's  
Fiscal Year 1999 Performance Report and Fiscal Year 2001 Performance  
Plan

As you requested, we reviewed the 24 Chief Financial Officers (CFO) Act agencies' fiscal year 1999 performance reports and fiscal year 2001 performance plans required by the Government Performance and Results Act of 1993 (GPRA). In essence, under GPRA annual performance plans are to establish performance goals and measures covering a given fiscal year and provide the direct linkage between an agency's longer-term goals and day-to-day activities. Annual performance reports are to subsequently report on the degree to which those performance goals were met. This report contains two enclosures responding to your request concerning key program outcomes and major management challenges concerning the Department of Housing and Urban Development (HUD). Enclosure I provides our observations on HUD's fiscal year 1999 actual and fiscal year 2001 planned performance for the key outcomes that you identified as important mission areas for the Department. These key outcomes are increased home ownership; increased affordable, decent, and safe rental housing; improved community economic vitality and quality of life; and less fraud, waste, and error in HUD's programs. Enclosure II lists the major management challenges facing the Department that we and HUD's Inspector General identified; the Department's progress in resolving those challenges, as discussed in its fiscal year 1999 performance report; and the applicable goals and measures in the Department's fiscal year 2001 performance plan.

## Results in Brief

Although HUD did not attain all of the specific goals set in its fiscal year 1999 annual performance plan, it generally made progress toward them, according to its fiscal

year 1999 performance report. Specifically, for the four outcomes we examined, we found the following:

- Under the outcome of increasing homeownership, HUD had not achieved its goal of increasing the homeownership rate to 67.5 percent but saw the homeownership rate rise from 65.4 percent in fiscal year 1996 to 66.9 percent in fiscal year 1999, a historic record that HUD considers a major achievement. HUD also reported that it met 6 of the 14 targets for the performance measures we identified as directly related to the homeownership outcome. One other measure was not specifically assessed in the performance report.
- HUD met the targets for 7 of the 14 measures we identified as directly related to the outcome of increasing affordable, decent, and safe rental housing. HUD clearly presented its results for all but one measure, reporting that it partially met its performance targets for two measures but did not achieve its planned performance for four others. The report provided a reasonable explanation for not meeting the targets for these four measures, discussed the impact of external factors on performance and noted that some of the targets would be changed as a result of HUD's performance for fiscal year 1999.
- HUD met its expected level of performance for all but one of the measures we identified as directly related to the outcome of improving community economic vitality and quality of life and achieved mixed results for another measure. The report clearly articulated the reasons for not achieving the target for one measure and for achieving mixed results for the other measure. For example, HUD reported that it did not meet the target for the number of jobs created because it altered the process for determining that number, which resulted in a lower number of jobs than originally estimated.
- HUD's fiscal year 1999 performance plan did not include a strategic goal directly related to the outcome of reducing fraud, waste, and error in HUD's programs or on achieving HUD's management reforms. However, the plan included a separate section on HUD's 2020 management reform efforts that listed goals and measures to resolve HUD's management deficiencies, some of which we identified as directly related to this outcome. The results achieved for most of these goals and measures are not clearly presented in the fiscal year 1999 performance report and we identified some inconsistencies in the information. For example, HUD reports that it exceeded the target for the measure—the number of entities physically inspected and scored; however, the number shown for physical inspections exceeds what HUD has reported to us.

For the first three outcomes, HUD clearly presented the results achieved in charts that displayed the fiscal year 1999 targets and fiscal year 1999 actual performance. For the fourth outcome, the results achieved for some of the goals and measures were not as clearly presented because they were discussed in the narrative rather than displayed in charts, and the text did not always clearly indicate whether the target had been achieved. For example, for one measure—to correct rejected payments within 3 business days if their correction were within HUD's control—the discussion noted that the financial management center closely monitors all rejected payments and has developed a report that identifies every rejected payment, that the

number of rejected payments has declined, and that rejected payments are monitored until they are corrected. However, the discussion did not indicate whether payments are being corrected within 3 business days as planned. Moreover, HUD's progress toward achieving some of the fiscal year 1999 goals was unclear because HUD gave no overall assessment of its progress toward the performance goals and HUD's performance in achieving the targets for the related measures was mixed. HUD generally did not report plans, actions, or time frames for achieving its unmet goals. However, we recognize that much of the Department's fiscal year 1999 performance plan is no longer relevant because HUD substantially revised its plan beginning with fiscal year 2000. The revisions included changing the strategic goals and modifying, adding, and deleting performance goals and measures. In particular, the revisions introduced a goal to "Restore Public Trust in HUD," which included many new performance measures that are directly related to the outcome of less fraud, waste, and errors in HUD programs. HUD noted that its planning process was evolving and that the changes occurred following consultations with the Congress, the Office of Management and Budget (OMB), and various stakeholders.

In its fiscal year 2001 performance plan, HUD continued to refine its performance goals and measures, generally on the basis of its expected performance for fiscal year 2000. HUD also addressed three of the four key weaknesses that we identified in its fiscal year 2000 performance plan. Specifically, HUD improved its discussion of coordination strategies, included additional tables that allocate its budget and staff resources among the major programs at the strategic goal level, and clarified its discussion of validation and verification issues to explain why it will not independently verify data. The fiscal year 2001 performance plan provided limited additional information on the data sources for the measures that are directly related to the desired outcomes.

HUD's fiscal year 1999 annual performance report discussed the Department's progress in addressing the four major management challenges that led us to classify HUD's programs as high risk. According to the performance report, HUD has made considerable progress in addressing these management challenges through the implementation of its 2020 Management Reform Plan. For two of these management challenges, the performance report included measures that are indirectly related to the issues that we raised—HUD's organization and staffing mix. The performance report also discussed eight material internal control weaknesses identified by HUD's Office of Inspector General. This discussion appeared under a measure providing that HUD would keep trying to obtain a clean audit opinion. We identified two other issues as governmentwide concerns—year 2000 and computer security—that were not addressed in the performance report.

In its fiscal year 2001 performance plan, HUD does not include goals or measures that are specifically related to resolving the four management challenges that we identified, but it does address the issues indirectly. For example, the performance plan includes measures for monitoring multifamily properties, improving verification of tenants' income, and improving HUD's data systems, all of which will help resolve HUD's internal control weaknesses. Most significant, the performance plan includes a separate section on HUD's management challenges that discusses the Department's

progress toward resolving, and strategies to address, the management challenges that we and HUD's Office of Inspector General identified.

## **Objectives, Scope, and Methodology**

Our objectives concerning selected key agency outcomes were to (1) identify and assess the quality of the performance goals and measures directly related to a key outcome, (2) assess HUD's actual performance in fiscal year 1999 for each outcome, and (3) assess HUD's planned performance for fiscal year 2001 for each outcome. Our objectives concerning major management challenges were to (1) assess how well HUD's fiscal year 1999 performance report discussed the progress that HUD had made in resolving the major management challenges that we and the Department's Inspector General had previously identified, and (2) identify whether HUD's fiscal year 2001 performance plan had goals and measures applicable to the major management challenges. As agreed, in order to meet the Committee's tight reporting time frames, our observations were generally based on the requirements of GPRA, OMB's guidance to agencies for developing performance plans and reports (OMB Circular A-11, Part 2), previous reports and evaluations by us and others, our knowledge of HUD's operations and programs, and our observations on HUD's other GPRA-related efforts. We did not independently verify the information contained in the performance report or plan. We conducted our review from April through May 2000 in accordance with generally accepted government auditing standards.

## **Agency Comments and Our Evaluation**

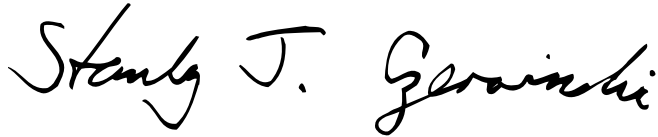
We provided HUD with a draft of this report for review and comment. Overall, HUD found the report to be balanced and useful for both recognizing the significant progress that the Department has made and pointing out areas where more effort is needed. HUD also stated that the report recognizes its progress in addressing the major management challenges. While agreeing with most of the report, HUD identified several areas that it believed should be clarified or better described. For example, HUD disagreed with our statement that it missed its fiscal year 1999 homeownership goals because it stated that the fiscal year performance plan did not establish a fiscal year 1999 homeownership goal. We clarified the report to address most of the issues that were raised by HUD. HUD also made technical clarifications to the report, which we incorporated as appropriate. HUD's comments and our detailed responses are in enclosure III.

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As agreed, unless you announce the contents earlier, we plan no further distribution of this report until 30 days from the date of the report. At that time, we will send copies to the Honorable Andrew M. Cuomo, Secretary of Housing and Urban Development, and make copies available to others on request.

Please call me on (202) 512-7631 if you or your staff have any questions. Key contributors to this report were J. Davis, James Houtz, and Nancy Simmons.

A handwritten signature in black ink that reads "Stanley J. Czerwinski". The signature is written in a cursive style with a large initial 'S' and 'C'.

Stanley J. Czerwinski  
Associate Director, Housing, Community  
Development, and Telecommunications Issues

Enclosures - 3

**Observations on the Department of Housing and Urban Development's Actual Performance and Fiscal Year 2001 Planned Performance Related to Key Outcomes**

This enclosure contains our observations on the Department of Housing and Urban Development's (HUD) fiscal year 1999 actual and fiscal year 2001 planned performance for key outcomes identified by the Senate Governmental Affairs Committee as important mission areas for the Department. The key outcomes for HUD are (1) increased home ownership; (2) increased affordable, decent, and safe rental housing; (3) improved community economic vitality and quality of life; and (4) less fraud, waste, and error in HUD's programs. As requested, we identified the goals and measures directly related to a selected key outcome. Our observations are organized according to each selected key outcome and follow the outcome's goals and measures.

**Key Agency Outcome: Increased Home Ownership**

**Fiscal Year 1999 Performance Goals and Measures for the Key Agency Outcome of Increased Home Ownership**

Fiscal year 1999 performance plan goals and measures

- Goal: Increase the rate of overall homeownership to 67.5 percent in the year 2000 (not shown as a goal in the performance report).
- Measure: Rate of homeownership (unmet).
- Goal: Increase the homeownership rate in central cities to 52.5 percent in the year 2000 (not shown as a goal in the performance report).
- Measure: Rate of homeownership (unmet).
- Goal: Increase the share of first-time homebuyers in each HUD field office by 1 percent per year over fiscal year 1995 (not shown as a goal in the performance report).
- Measure: Share of first-time buyers in each HUD field office (met, exceeded).
- Goal: Reduce the Federal Housing Administration's (FHA) cost of providing mortgage insurance (not specifically assessed in the annual performance report).
- Measure: Percentage of single-family properties sold that were on hand as of October 1, 1998 (unmet).
- Measure: Percentage of projected acquisitions for October 1, 1998 to May 31, 1999 sold (unmet).
- Measure: Increase in net recovery on Real Estate-Owned (REO) sales (met, exceeded).
- Measure: Percentage of mortgage defaults and claims resolved by the use of loss mitigation and alternatives to foreclosure (met, exceeded).
- Goal: Stabilize homeownership in older and distressed urban neighborhoods (not specifically assessed).
- Measure: Number of single-family properties rehabilitated by a revamped 203(k) program (unmet).

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- Measure: Success in revamping the direct Title I Home Improvement Loan Program (not specifically assessed).
- Goal: Maintain liquidity in the market for mortgage credit (not specifically assessed).
- Measure: Percentage of FHA and Department of Veterans' Affairs (VA) loans securitized (unmet).
- Measure: Percentage of multifamily mortgages securitized over 2 years (met, exceeded).
- Measure: Revenue from multiclass security credit enhancement (met, exceeded).
- Measure: Percentage of increase in lending in distressed communities (met, exceeded).
- Measure: Number of units of Native American homeownership financing guaranteed (unmet).

### GAO's Observations on HUD's Fiscal Year 1999 Actual Performance for the Key Agency Outcome of Increased Home Ownership

The fiscal year 1999 performance measures are adequate to indicate whether HUD made progress toward achieving the performance goals, primarily because, in fiscal year 1999, the measures and goals were directly linked to one another. For example, HUD had a goal to increase the rate of overall homeownership and the measure was the rate of homeownership achieved. The measures indicate that while HUD did not achieve some of its goals, it did achieve an increase in the homeownership rate from 65.4 percent in fiscal year 1996 to 66.9 percent in fiscal year 1999, which HUD reports reached a historic level and considers a major achievement.

HUD's goals and measures in the fiscal year 1999 annual performance plan related to this outcome are generally objective and measurable, and the goals are outcome oriented. The measures are generally output oriented but directly support the outcome to be achieved. In our review of the fiscal year 1999 annual performance plan, we reported that about one third of the total performance measures did not provide quantifiable measures to compare the actual performance in fiscal year 1999 with the projected performance. For example, the 1999 annual performance plan did not show a target level of achievement for three of the measures we selected for this outcome, but stated that a target would be determined after a baseline was set. In the fiscal year 1999 performance report, HUD revised two of these measures to show a baseline that was based on fiscal year 1998 data and included a target for fiscal year 1999, which HUD reported exceeding. For the third measure, HUD reported the number of loans made under the program but did not indicate whether that was the expected level of performance and subsequently dropped the measure.

HUD's progress in achieving its performance measures was clearly articulated in the performance report, although it was more difficult to assess HUD's progress in achieving some of the performance goals shown in the fiscal year 1999 performance plan. The discussion with each measure in the performance report included a chart that showed the fiscal year 1999 target and fiscal year 1999 performance. HUD met 6 of the 14

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measures related to the homeownership outcome. HUD did not achieve two of its major performance goals as of the end of fiscal year 1999—to increase the overall homeownership rate and to increase the homeownership rate in central cities to the target levels. However, HUD did report an increase in performance over the prior year for both of those goals. HUD was successful in exceeding the goal related to increasing the share of first-time homebuyers in field offices. HUD's progress in achieving the other three performance goals was not evident because the performance of the related measures varied and no specific discussion of progress was presented in the performance report.

The fiscal year 1999 annual performance report changed the goals and measures from those originally shown in the annual performance plan. Three of the goals from the fiscal year 1999 annual performance plan were collapsed with the related measures, and only the measures were shown in the performance report. For the three performance goals that were identified in the performance report, HUD reported on its progress in achieving the related measures but did not specifically discuss its progress in achieving those goals. These changes are consistent with the revised framework that HUD adopted in the fiscal year 2000 annual performance plan. Because of these changes, the remainder of our discussion will focus on HUD's progress in achieving the performance measures for this outcome, as shown in the annual performance report.

HUD's performance report generally did not discuss the data sources for the performance measures. We have expressed concern about HUD's data limitations in the past, and HUD's information and financial management systems remain one of its most significant management challenges. The only specific discussion related to data issues or methodologies for reporting on the measures was a discussion of a revision to the methodology for determining the two homeownership rates. The annual performance report did not explain the reason for this change.

### Unmet Fiscal Year 1999 Performance Measures for the Key Agency Outcome of Increased Homeownership

#### Unmet fiscal year 1999 performance measures

- Rate of overall homeownership.
- Rate of homeownership in central cities.
- Percentage of single-family properties sold that were on hand as of October 1, 1998.
- Percentage of projected acquisitions for October 1, 1998 to May 31, 1999 sold.
- Number of single-family properties rehabilitated by 203(k) program.
- Percentage of FHA and VA loans securitized.
- Number of units of Native American homeownership financing guaranteed.

#### Performance measure not specifically assessed

- Success in revamping the direct Title I Home Improvement Loan Program.



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### GAO's Observations on HUD's Unmet Fiscal Year 1999 Performance Goals and Measures for the Key Agency Outcome of Increased Home Ownership

HUD did not meet the performance level set by the fiscal year 1999 plan for seven performance measures and one was not specifically assessed in the performance report. HUD did not provide specific plans, actions, or timeframes for achieving unmet fiscal year 1999 measures in the future.

HUD did not achieve its targets for the two homeownership measures as of the end of fiscal year 1999; however, we noted that the performance plan and report show different time frames for when the target was to have been achieved. The performance report stated that HUD did not have an interim target for fiscal year 1999 and noted that the target was for fiscal year 2000. However, the annual performance plan shows an estimated target for fiscal year 1999 of 67.5 percent in the table for this measure, even though the goal itself is phrased as "in the year 2000." Additionally, the narrative in the performance report states that the administration's goal was to achieve the increased homeownership rate "by fiscal year 2000" which could only be accomplished if the target were achieved by September 30, 1999. HUD reported that beginning in fiscal year 2000, it will change the methodology for measuring the homeownership rate—it will be measured in the last quarter of the fiscal year. This change may help to evaluate progress toward achieving the goal in the future because it clarifies the time period being measured.

For four of the seven measures where HUD did not meet its fiscal year 1999 performance targets, the report briefly discussed the problems encountered and noted external factors that may have contributed to not meeting the target level of performance. For example, the measure to increase the number of single-family properties rehabilitated by the 203(k) program noted that participation has declined since for-profit investor participation was suspended in fiscal year 1997, and FHA has begun encouraging nonprofit corporations to use the program. Also, under the measure to increase the number of units of Native American homeownership financing guaranteed, the report stated that the baseline was established with a less reliable methodology and the program continues to be held back by the difficulty that Native Americans face in obtaining clear title to homes on Indian land.

For the remaining measure that was not met, the report notes that the measure was not carried over to the fiscal year 2000 or 2001 annual performance plan.

While the performance report does not cite specific reasons for not achieving the homeownership goals, HUD noted in the annual performance plan that homeownership rates are significantly affected by external factors. In the annual performance plan, HUD reported that the FHA is a key player in the partnership of various organizations attempting to increase homeownership, but that the [Office of] Housing is not the dominant player and is unable to raise the rate without the concerted effort of all the partners. The performance report cites the strong performance of the economy,

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increased family income, and low interest rates as significant factors contributing to the increase in the homeownership rate that was achieved.

### Fiscal Year 2000 Performance Goals and Measures for the Key Agency Outcome of Increased Homeownership

Revised performance goals directly related to this outcome

- The national homeownership rate increases.
- Numbers of first-time homebuyers rise, both absolutely and relatively.
- Homeownership rises among low- and moderate-income families.
- Homeownership rates increase in central cities.
- Monthly costs of homeownership decline.

New performance measures directly related to this outcome

- Homeownership rate among households with incomes less than median increases by 1 percent to 52 percent.
- Monthly cost of homeownership of new homes decreases by 1 percent.
- Maintenance costs for homeowner-occupied dwellings decreases by 3 percent.
- Average residential energy consumption declines by 1 percent.
- FHA's Mutual Mortgage Insurance Fund meets reserve targets.
- Number of FHA-insured single-family mortgage insurance endorsements nationwide increases by 5 percent to 1.21 million endorsements.
- Fannie Mae and Freddie Mac meet or surpass targets for low- and moderate- income mortgage purchases.
- Fannie Mae and Freddie Mac meet or surpass targets for special affordable mortgage purchases.
- The share of all homebuyers who are first-time homebuyers increases by 1 percent to 48 percent.

Revised measures directly related to this outcome

- The homeownership rate in central cities increases by 0.5 percentage point to 51 percent.
- The net recovery of FHA real estate-owned sales increases by 2 percentage points to 62.7 percent.
- The share of FHA-insured home-purchase mortgages for first-time homebuyers increases by 1 percentage point to 73 percent.
- The number of homeowners who have been assisted by the HOME program increases.

### GAO's Observations on HUD's Fiscal Year 2000 Planned Performance for the Key Agency Outcome of Increased Home Ownership

HUD significantly revised the format for the fiscal year 2000 annual performance plan by developing new strategic goals, performance goals, and performance measures. This

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outcome was incorporated under a strategic goal to “increase the availability of decent, safe, and affordable housing in American communities” with the following three supporting objectives:

- Homeownership is increased.
- Affordable rental housing is available for low-income households.
- America’s housing is safe and disaster resistant.

The performance goals were no longer linked directly to specific performance measures but were listed in the narrative discussion under the strategic goal. In the introduction to the plan, HUD states that the goals and measures evolved to more accurately portray the vision of HUD and that changes in the goals and measures resulted from extensive consultation with the Congress, the Office of Management and Budget, and various stakeholders. We reported that the fiscal year 2000 annual performance plan was an improvement over the fiscal year 1999 annual performance plan.

Nine of the homeownership measures shown in the fiscal year 2000 plan were new; only seven remained from the fiscal year 1999 performance plan. While no specific reasons were given for the new homeownership goals and measures, the overview for the homeownership section discusses HUD’s concern for increasing homeownership among low-income families and in underserved areas and for reducing homeownership costs to make homeownership more affordable. HUD reported to us that the Department reevaluated all of the fiscal year 1999 measures and that some were replaced by superior measures, while others were included to emphasize outcomes and to further capture the business of the Department, as recommended by outside reviewers of the performance plans.

HUD generally did not discuss the effect of the fiscal year 1999 performance on estimated performance for fiscal year 2000. HUD reported to us that this was because the new plan was published prior to final performance data being available. However, the performance report included information for two of the four revised measures that suggested that the measures were revised as a result of performance in fiscal year 1999. For one of these measures, the report specifically stated that the measure was changed for fiscal year 2000 on the basis of fiscal year 1999 performance that did not meet the expected target. For the other two measures, no specific reasons were stated, but the charts included in the annual performance plan indicated that the new targets reflected actual historical performance.

### Fiscal Year 2001 Performance Goals and Measures for the Key Agency Outcome of Increased Homeownership

New measures directly related to this outcome

- The number of homeowners who have used sweat equity to earn assistance with the Self Help Opportunities Program funding increases.
- At least 90 percent of the empowerment zones (EZ) and enterprise communities (EC) achieve local goals in promoting homeownership by residents.

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- The share of minority homebuyers among FHA home purchase endorsements increases by 1 percentage point to 39 percent.

### Revised measures directly related to this outcome

- Overall homeownership rate increases from 67 percent in 1999 to 67.5 percent in 2001.
- The share of all homebuyers who are first-time homebuyers increases by 0.5 percentage points to 48.3 percent.
- The homeownership rate among households with incomes less than median family income increases by 0.5 percentage points to 52.3 percent.
- Ginnie Mae securitizes at least 85 percent of single-family FHA and VA loans.
- The share of FHA mortgage defaults resolved by loss mitigation alternatives to foreclosure increases by 2 percentage points to 30 percent.
- The net recovery of FHA real estate-owned sales increases by 1 percentage point to 63.7 percent.
- The number of FHA single-family mortgage insurance endorsements nationwide increases by 5 percent to 1.365 million endorsements.
- The share of FHA-insured home-purchase mortgages for first-time homebuyers remains at least 80 percent.
- The number of homeowners who have been assisted by the HOME program is maximized.
- The monthly cost of homeownership of new homes decreases by 1 percent from 1998 levels by 2001.
- The maintenance costs of homeowner-occupied dwellings decrease by 3 percent to \$.22 per square foot per year.
- The average residential energy consumption declines by 1 percent from 1999 levels by 2002.

### GAO's Observations on HUD's Fiscal Year 2001 Planned Performance for the Key Agency Outcome of Increased Homeownership

The fiscal year 2001 annual performance plan generally followed the same format as the fiscal year 2000 annual performance plan, keeping the same strategic goals but adding new performance measures and revising some of the performance measures. HUD did not explain why the new measures were added. However, HUD linked them to other strategic goals and performance measures, which generally help to show the interrelationship of the measures.

For those 12 measures that were revised, the discussion of the individual measures generally notes that the performance measure was changed on the basis of expected performance in fiscal year 2000, but it does not provide a full picture of the reasons for the changes in all cases. For example, one goal--the share of all homebuyers who are first-time homebuyers increases by 0.5 percentage points to 48.3 percent--states that the performance goal is based on the assumption that the fiscal year 2000 goal of 47.8

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percent is met. However, the fiscal year 2000 annual performance plan states that the goal is 48 percent and uses an increment of 1 percent. The fiscal year 2001 annual performance plan does not explain these discrepancies.

We reported that the fiscal year 2000 annual performance plan was an improvement and was well on its way to addressing the weaknesses we identified in the fiscal year 1999 annual performance plan. The key weaknesses we identified in the fiscal year 2000 annual performance plan were that it

- did not show how budgetary resources are allocated to achieving performance goals,
- provided limited confidence that the performance data would be credible,
- did not link its human resources to its strategic goals and objectives, and
- did not describe the planned coordination strategies.

The section of the fiscal year 2001 annual performance plan that discusses homeownership goals does not address the budgetary resources or human resources necessary to achieve specific goals or measures. However, the annual performance plan does include separate tables that allocate HUD's budget and staff resources among the major programs at the strategic goal level.

The fiscal year 2001 annual performance plan also improves the discussion of HUD's coordination with other agencies by providing information on the nature of the coordination and the activities that contribute to the goal of increasing home ownership. HUD continues to note that some indicators are potential interagency indicators. It does not, however, provide additional information on which agencies share an indicator or how such an indicator would be developed, used, or tracked.

In the discussion of the individual measures, HUD has improved its discussion of validation and verification issues. For example, the 2001 performance plan explains why some data will not be independently verified and that some would be verified using quality assurance sampling methods.

### **Key Agency Outcome: Increased Affordable, Decent, and Safe Rental Housing**

#### Fiscal Year 1999 Performance Goals and Measures for the Key Agency Outcome of Increased Affordable, Decent, and Safe Rental Housing

Fiscal Year 1999 performance goals and measures

- Goal: Increase the use of FHA's 223(f) program for existing apartment buildings in underserved areas (not shown as a goal in the performance report).
- Measure: Establish baseline (partial, set baseline but did not achieve target).
- Goal: Increase assistance to households, including rental housing, tenant-based rental assistance, new homeownership opportunities, and assistance to existing homeowners (not shown as a goal in the performance report).
- Measure: Number of rental units produced (unmet).

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- Measure: Number of units produced by HOME Fund for new construction, rehabilitation, and acquisition (unable to locate in the performance report).
- Measure: Leverage at least \$1.50 in other resources for each \$1 of HOME [funds] (met, exceeded).
- Goal: Increase amount of HOME rental housing that remains affordable to low-income families during the affordability period required by the program (not shown as a goal in the performance report).
- Measure: Establish baseline (unmet).
- Goal: Improve the quality of life for residents of public housing (not shown as a goal in the performance report).
- Measure: Establish goals for fiscal year 2000 (unmet).
- Measure: Number of replacement units (met, exceeded).
- Measure: Number of units approved for demolition (met, exceeded).
- Measure: Number of units demolished (met, exceeded).
- Measure: Percentage of units meeting local codes or Housing Quality Standards (met, exceeded).
- Measure: Increase the percentage of on-schedule HOPE VI revitalization projects or grants (met).
- Measure: Increase the percentage of project-based Section 8 units in standard physical and financial condition (met for physical, unmet for financial).
- Goal: Increase services to Native American families (not specifically assessed).
- Measure: Number of Native American families served under the Native American Housing Assistance and Self-Determination Act (unmet, baseline will be established in 2000).
- Goal: Increase availability of incremental units in HUD's rental assistance programs available to serve the worst case housing needs of very low-income families (not shown as a goal in the performance report).
- Measure: Number of units (met).

### GAO's Observations on HUD's Fiscal Year 1999 Actual Performance for the Key Agency Outcome of Increased Affordable, Decent, and Safe Rental Housing

The measures in the fiscal year 1999 annual performance plan that directly related to the outcome of increasing affordable, decent, and safe rental housing showed that HUD made progress toward achieving its goal to improve the quality of Section 8 and public housing stock but made somewhat less progress toward increasing the total quantity of affordable housing units available.

Most of these performance goals and the measures were generally objective, measurable, and quantifiable. In our review of the fiscal year 1999 annual performance plan, we reported that about one-third of the total performance measures were not quantifiable and would not allow for comparing performance in fiscal year 1999 with the projected performance. Under this outcome, there were five such performance measures. In the performance report, HUD set a baseline and target for one of these measures and

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reported making progress toward achieving that target. For two of the measures, HUD was unable to establish the baseline or develop targets because it reported that the survey needed to set the baseline would not be completed until December 2000. For another measure, HUD reported that fiscal year 1999 was the first year of funding for the program and no data were available. For the remaining measure, HUD stated that the baseline for physical inspections was set but that the financial baseline would not be set until later in fiscal year 2000.

With one exception, HUD clearly articulated the performance achieved by including a chart for each measure that showed the fiscal year 1999 target performance and actual performance. However, in some cases, the fiscal year 1999 report showed targets that were different from those shown in the fiscal year 1999 annual performance plan and the report did not explain the differences. For example, the fiscal year 1999 annual performance plan showed a target of 36,900 rental units produced under the HOME program, and the fiscal year 1999 report showed a target of 33,264 rental units committed under the program. HUD met 7 of the 14 measures related to this outcome.

The fiscal year 1999 annual performance report changed the goals and measures that were originally shown in the fiscal year 1999 annual performance plan. Five of the six goals from the fiscal year 1999 annual performance plan that we identified as directly related to this outcome were collapsed with the measures, and only the measures were shown in the performance report. The fifth goal was stated in the report, but not specifically assessed; however, the related measure was not met. HUD revised the reporting so that it was consistent with the framework adopted with the fiscal year 2000 annual performance plan. Because of these changes, the remainder of our discussion will focus on HUD's progress in achieving the performance measures.

HUD generally did not discuss the sources of data for determining its fiscal year 1999 performance. For three measures, HUD provided general information on the data. One measure noted that the data were from inspections, reports, and Public Housing Authority certifications; one measure discussed a new system; and the remaining measure said that no data were available (no performance was reported for that measure).

### Unmet Fiscal Year 1999 Performance Measures for the Key Agency Outcome of Increased Affordable, Decent, and Safe Rental Housing

Unmet fiscal year 1999 performance measures

- Increase number of rental units produced.
- Establish a baseline for HOME rentals that stay affordable during the affordability period.
- Establish (HOME) goals for fiscal year 2000.
- Increase services to Native American families.

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### Partially met performance measures

- Increase the percentage of project-based Section 8 units in standard physical and financial condition.
- Increase the use of FHA's 223(f) program and establish a baseline.

### Unable to identify in the performance report

- Number of units produced by HOME funds for new construction, rehabilitation, and acquisition.

### GAO's Observations on HUD's Unmet Fiscal Year 1999 Performance Measures for the Key Agency Outcome of Increased Affordable, Decent, and Safe Rental Housing

With one exception, HUD clearly articulated the progress made towards achieving the performance measures in the fiscal year 1999 annual performance report. HUD met or exceeded the target for seven, partially met two, and did not achieve its target for four measures. We were unable to clearly identify one of the performance measures from the fiscal year 1999 performance plan in the performance report; so performance toward achieving that measure could not be assessed.

For the four measures for which the target was not achieved, the report provided reasonable explanations of why the target performance was not met, including the impact of external factors on the performance. It also noted where the measures or goals would be changing as a result of the fiscal year 1999 performance. For example, for the measure to increase the number of rental units produced, the report noted that the performance measures were based on estimates of units. HUD noted that it is implementing a new system that will move away from reporting estimates of units on the basis of budgetary commitments to reporting actual units completed during the fiscal year. For the measures to establish a baseline for HOME rentals that stay affordable and establish the fiscal year 2000 goals, the report states that grantees are not required to report the necessary data and that HUD has funded a survey to determine affordability over time. HUD adds that the survey will be completed in December 2000 and that these measures were revised in the fiscal year 2000 annual performance plan.

For the two measures that were partially met, the fiscal year 1999 report provided some information on why the expected performance was not achieved. For example, for the measure to increase the percentage of project-based Section 8 units in standard physical and financial condition, the report notes that the Real Estate Assessment Center completed the baseline physical inspections and notes that the financial condition would be determined in fiscal year 2000. HUD provides a more detailed explanation for the measure to increase the use of the 223(f) program. The annual performance report shows that the baseline was set; notes that the performance target was not achieved; and discusses the delays encountered in defining the areas to be served, which delayed effective targeting of the program and affected achieving the targets.



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### Fiscal Year 2000 Performance Goals and Measures for the Key Agency Outcome of Increased Affordable, Decent, and Safe Rental Housing

#### New performance goals directly related to this outcome

- Decrease the number of households with worst-case housing needs, particularly among families with children and the elderly.
- Reduce the share of very-low-income households with worst-case housing needs in at least five states.
- Maintain the share of extremely-low-income renters living in HOME rental developments.
- Decrease mismatches of units affordable for extremely-low- and very-low-income renter households nationally.
- In states with shortages of affordable housing for extremely-low- and very-low-income households, decrease mismatches of units relative to renter households.
- Reduce the share of units with exposed wiring, unvented heaters, and other physical problems.
- Reduce the share of public and assisted housing with dangerous defects.

#### New measures directly related to this outcome

- At least 200 Section 202 projects for the elderly will reach initial closing during 2000.
- In at least five states, assisted living facilities will have begun to house elders using housing vouchers combined with Medicaid or other third-party funding for services.
- For extremely-low-income renters, the ratio of affordable units to households increases by 2 percentage points to 79 percent by 1999.
- For very-low-income renters, the ratio of affordable units actually available to households increases by 5 percentage points to 75 percent by 1999.
- The ratios of affordable units to rental households will be higher for at least 6 of the 30 states that in 1990 had absolute shortages of units affordable to extremely-low-income households.
- The ratios of affordable units to rental households will be higher for at least 4 of the 16 states that in 1990 had absolute or relative shortages of units affordable to very-low-income households.
- Fannie Mae and Freddie Mac meet or surpass HUD-defined targets for special affordable multifamily mortgage purchases.
- Ginnie Mae securitizes at least 60 percent of eligible FHA multifamily mortgages.
- Ginnie Mae credit enhancements on Real Estate Mortgage Investment Conduit securities increase by 10 percent to \$44.8 billion in fiscal year 2000.
- FHA endorses at least 400 multifamily mortgages annually.
- Among multifamily developments newly insured by the FHA General and Special Risk Insurance funds, the share of units that are affordable to households with incomes below 60 percent of median increases by 1 percent.
- 75 percent of multifamily mortgages restructured under the mark to market program are closed within 12 months.

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- The share of very-low-income households living in units with moderate or severe physical problems decreases by 1 percentage point to 9 percent for owners and 11 percent for renters by 1999.
- The share of housing units with exposed wiring, unvented heaters, holes in the floors, or rats decreases by 1 percentage point by 1999.
- The share of public housing units and assisted multifamily units that meet HUD established standards increases by 1 percentage point.
- The share of public housing units and assisted multifamily units that contain life-threatening health and safety deficiencies decreases by 10 percentage points.

### Revised measures directly related to the outcome

- Increase the number of households receiving housing assistance under the Community Development Block Grant, Home Investment Partnerships, and Housing Opportunities for Persons with Aids programs, and the Native American Housing Assistance Self-Determination Act.
- The number of households with worst-case housing needs decreases by 3 percent by 1999 among families with children and elderly households
- The share of very-low-income renter households with worst case housing needs declines by at least 1 percentage point in at least five states.
- Among extremely-low-income renters, the ratio of assisted households to households with worst-case housing needs or assistance increases by 1 percentage point to 43 percent by 1999.
- The number of HOME production units completed within the fiscal year will increase by 4 percent.
- All households living in HOME rental developments will be income eligible, pay appropriate rent, and live in physically adequate units.
- 13,750 units of severely distressed public housing are demolished.
- Share of HOPE VI Revitalization Developments that are on schedule increases by 2 percentage points annually to 94 percent.
- 13,570 units of severely distressed public housing are demolished.
- The share of HOPE VI Revitalization Developments that are on schedule increases by 2 percentage points annually to 94 percent.

### GAO's Observations on HUD's Fiscal Year 2000 Planned Performance for the Key Agency Outcome of Increased Affordable, Decent, and Safe Rental Housing

The fiscal year 2000 annual performance plan was substantially revised from the fiscal year 1999 annual performance plan, to include new and revised strategic goals, performance goals, and performance measures. This outcome was incorporated under a strategic goal to "increase the availability of decent, safe and affordable housing in American communities" with the following three supporting objectives:

- Homeownership is increased.
- Affordable rental housing is available for low-income households.
- America's housing is safe and disaster resistant.

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Given the substantial revisions in the performance measures from fiscal year 1999, there is limited connection between the fiscal year 1999 performance as shown in the performance report and that planned for fiscal year 2000. For example, 18 of the 24 measures related to increasing affordable rental housing were new. The fiscal year 2000 annual performance plan does not reference actual 1999 performance for any of the measures shown. HUD reported to us that the fiscal year 2000 performance plan did not address the effect of fiscal year 1999 performance on the new performance plan because the new plan was published prior to the availability of final performance data for fiscal year 1999.

While the report does not specifically explain why the new measures were added, as discussed above, the introduction discusses the evolution of the plan and the consultation with stakeholders that resulted in the changed structure. HUD reported to us that the Department reevaluated all of the fiscal year 1999 measures. Some were replaced by superior measures and others were included to emphasize outcomes and to further capture the business of the Department, as recommended by outside reviewers of the performance plans.

The means and strategies discussion was substantially revised in the fiscal year 2000 annual performance plan, and the linkage to the performance goals and measures is generally clear. For example, the annual performance plan generally reflects the strategies related to this outcome and the goals and measures: to increase the supply of affordable housing, transform public housing, and address worst-case housing needs. However, the strategies do not clearly indicate how HUD plans to target its activities related to a specific number of states, such as the goal to have assisted living facilities in at least five states begin to use housing vouchers to house elders.

### Fiscal Year 2001 Performance Goals and Measures for the Key Agency Outcome of Increased Affordable, Decent, and Safe Rental Housing

Revised performance goals directly related to this outcome

- Increase the number of affordable housing units relative to the number of extremely low- and very-low-income renter households nationally.
- In states with shortages of housing affordable for extremely-low and very-low-income households, increase the number of affordable units relative to renter households.
- Increase the number of affordable housing units relative to the number of extremely-low and very-low-income renter households nationally.
- In states with shortages of housing affordable for extremely-low and very-low-income households, increase the number of affordable units relative to renter households.

New measures directly related to this outcome

- The HOPE VI Revitalization Development program for public housing relocates 2,300 families, demolishes 4,100 units, completes 12,000 new and rehabilitated units, and occupies 11,100 units.

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- The share of EZs and ECs achieving local goals is 85 percent for new affordable housing and 80 percent for rehabilitated affordable housing.
- Among units occupied by low-income households, the share containing threats to health and safety decreases by 0.2 percentage points to 5.9 percent.

### Revised measures directly related to this outcome

- The number of households with worst-case housing needs decreases by 3 percent by 2001 among families with children and elderly households.
- Among extremely-low-income renters, the ratio of assisted households to households with worst-case needs or already assisted increases by 43 percent by 2001.
- Increase the availability of affordable housing for the elderly and persons with disabilities by bringing 226 projects to initial closing under Sections 202 and 811.
- For extremely-low-income renters, the number of affordable units increases from 76 per 100 extremely-low-income renter households to 78 by 2001.
- For very-low-income renters, the number of affordable units actually available increases from 68 per 100 very-low-income renter households to 72 by 2001.
- Ginnie Mae securitizes at least 66 percent of eligible FHA multifamily mortgages.
- Ginnie Mae credit enhancements on multiclass securities increase by 5 percent to \$57.5 billion in fiscal year 2001.
- FHA endorses at least 700 multifamily mortgages.
- Among multifamily developments newly insured by the FHA General and Special Risk Insurance funds, the share of units affordable to households with incomes below 60 percent of the median increases by 1 percentage point from fiscal year 2000 levels.
- Approximately 1,400 projects (135,000 units) under the mark-to-market program will have rents reduced and, where appropriate, will involve mortgage restructuring.

### GAO's Observations on HUD's Fiscal Year 2001 Planned Performance for the Key Agency Outcome of Increased Affordable, Decent, and Safe Rental Housing

The fiscal year 2001 annual performance plan generally followed the same format as the fiscal year 2000 annual performance plan and continued to refine HUD's goals for increasing the availability of decent, safe and affordable housing. The fiscal year 2001 performance plan revised 4 performance goals and 10 performance measures and added 3 new performance measures that we identified as directly related to this outcome. No specific information is provided on the reasons for the new measures. The performance plan also does not specifically provide reasons for the revisions to the performance goals but indicates that the performance measures were revised on the basis of data or performance changes.

Under the discussions for the 10 revised measures, the annual performance plan specifically states that the revisions for 5 of them were based on changes in performance. For example, one measure was revised because the number of projects that were in the program's "pipeline" was declining. Another states that the measure was revised on the basis of revisions to data that indicated lower progress than had been

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estimated. For the remaining five measures, the annual performance plan does not specifically state the basic reasons for the revisions. However, in general, the report implies that they were revised on the basis of data or performance changes. For example, for the measure to increase the ratio of assisted households to households with worst-case housing needs by 43 percent, the chart indicates that the fiscal year 1999 goal was revised downward, which would be expected to affect subsequent performance. For another, the chart indicates that Ginnie Mae significantly exceeded its fiscal year 1999 performance, which suggests that was the reason for increasing the fiscal year 2001 target.

### **Key Agency Outcome: Improved Community Economic Vitality and Quality of Life**

#### Fiscal Year 1999 Performance Goals and Measures for the Key Agency Outcome of Improved Community Economic Vitality and Quality of Life

##### Fiscal Year 1999 performance goals and measures

- Goal: Strengthen planning and development capacity of State and local governments to revitalize distressed neighborhoods and communities, including increasing the number of jurisdictions whose Consolidated Plans are rated more highly, using a standardized assessment (not shown as a goal in the performance report).
- Measure: Development of a standardized assessment (met).
- Measure: Number of consolidated plans using the standardized assessments (met, exceeded).
- Measure: Establish fiscal year 2000 goal (met).
- Goal: Increase the percentage of EZs and ECs that show satisfactory progress in defining local benchmarks, such as increasing employment, improving safety, and/or improving educational levels (not shown as a goal in the performance report).
- Measure: Development of a tracking system (met).
- Measure: Using new tracking system, the percentage of EZs and ECs that show satisfactory progress toward locally defined benchmarks (split into seven measures-- three met, four unmet).
- Goal: Increase the number of jobs created as a direct result of use of HUD's funds and programs (not shown as a goal in the performance report).
- Measure: Number of jobs created as a direct result of use of Community Development Block grant (CDBG), Economic Development Initiative, and Section 108 (unmet).
- Measure: Number of job opportunities through partnerships in each EZ/EC (met).
- Goal: Exceed statutory mandate for using 70 percent of (CDBG) funds for low- and moderate-income persons (not shown as a goal in the performance report).
- Measure: Percentage of funds used for activities for low- and moderate-income persons (met, exceeded).

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### GAO's Observations on HUD's Fiscal Year 1999 Actual Performance for the Key Agency Outcome of Improved Community Economic Vitality and Quality of Life

The fiscal year 1999 performance measures are adequate to indicate whether HUD made progress towards achieving the performance goals, primarily because in fiscal year 1999, the measures and goals were directly linked to one another. However, as we reported in our review of the fiscal year 1999 plan, it is not clear how the measures to develop planning procedures or systems will help HUD know if it has achieved its goals. For example, it is unclear how using a standardized assessment will strengthen the planning and development capacity of state and local governments.

HUD did not specifically discuss the degree to which performance goals were achieved; however, the report clearly articulated progress made toward achieving the measures by including charts that showed the fiscal year 1999 target level of performance and the fiscal year 1999 actual performance. HUD was successful in meeting six of the measures that directly related to this outcome. For one additional performance measure, the targets were partially met. HUD expanded the measure and added seven components, three of which were met and four that were not.

The fiscal year 1999 annual performance report changed the goals and measures that were originally shown in the fiscal year 1999 annual performance plan. The four goals from the fiscal year 1999 annual performance plan that we selected as directly related to this outcome were collapsed with the measures and shown only as measures in the performance report. HUD revised the reporting to be more consistent with the framework adopted with the fiscal year 2000 annual performance plan. Because of these changes, the remainder of the discussion will focus on HUD's progress in achieving the performance measures.

In general, the data sources are not discussed, and it is, therefore, difficult to assess the reliability of the data. For one measure, HUD reported that the numbers are estimates.

### Unmet Fiscal Year 1999 Performance Measures for the Key Agency Outcome of Improved Community Economic Vitality and Quality of Life

Unmet fiscal year 1999 performance measure

- Number of jobs created as a direct result of use of CDBG, EDI, and Section 108.

Mixed results on

- Using the newly developed tracking system, the percentage of all EZs and ECs that show satisfactory progress toward locally defined benchmarks

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### GAO's Observations on HUD's Unmet Fiscal Year 1999 Performance Measures for the Key Agency Outcome of Improved Community Economic Vitality and Quality of Life

HUD met the expected level of performance for all but one measure related to this outcome and achieved mixed results on another. The annual performance report clearly articulated the reasons for not achieving the target performance for these measures.

For the measure that was not achieved, HUD reported that it altered the process for determining the number of jobs created in fiscal year 1999, which decreased the number of jobs reported. The report notes that, as a new system is implemented, job creation estimates will be based on actual jobs created or retained as reported by grantees, rather than a calculation based on the average job cost. A date for the full implementation of the new system was not provided.

For the performance measure that achieved mixed results, the measure was revised and expanded to show that HUD developed the tracking system, as well as the progress towards achieving seven specific activities. HUD's analysis of the performance showed that the EZs and ECs have greater difficulty completing some of their more complex activities. The report noted that for the fiscal year 2001 annual performance plan, HUD responded to the results by setting goals for each of the activities on the basis of the level of difficulty.

### Fiscal Year 2000 Performance Goals and Measures for the Key Agency Outcome of Improved Community Economic Vitality and Quality of Life

#### New performance goals directly related to this outcome

- Decrease differences in city and suburban job growth rate.
- Decrease differences in city and suburban unemployment rates.
- Decrease differences in city and suburban median income.
- Decrease differences in city and suburban poverty rates.
- Stabilize or increase homeownership rates in older and distressed neighborhoods.
- Decrease disparities in city and suburban housing values.
- Make more capital available to rehabilitate housing in distressed neighborhoods.
- Increase the acreage of reclaimed and redeveloped brownfields.

#### New measures directly related to this outcome

- The ratio of city to suburban job growth within larger metropolitan areas increases 3 percentage points to 70 percent by 1997.
- The ratio of city to suburban unemployment rates within metropolitan areas decreases by 3 percentage points to 137 percent.
- The national average ratio of central city to suburban median household income increases by 1 percentage point to 73 percent.
- The national average ratio of central city to suburban poverty rates decreases by 1 percentage point to 207 percent.

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- The Community Empowerment Fund (CEF) trust will establish standardized underwriting and documentation for business loans in distressed areas and will establish a loan-loss reserve to provide additional security and credit enhancement.
- The CEF trust will securitize at least \$50 million in business loans in distressed areas.
- The American Private Investment Companies (APIC) program will guarantee venture capital investments that will produce significant business formation, job creation, and secondary economic activity and will predominately serve targeted low- and moderate-income areas.
- FHA single-family mortgage lending in underserved communities increases by 10 percent.
- Capital used to rehabilitate housing in underserved neighborhoods increases by 1 percent.
- Through the use of the Brownfields Redevelopment Program, CDBG funds and Section 108 loan guarantees, the area of brownfields reclaimed and under redevelopment increases, and the area reclaimed and redeveloped increases.
- The share of CDBG direct beneficiary activities that benefit low-income persons remains at 56 percent.

### Revised measures directly related to this outcome

- A total of 283,000 jobs will be created or retained through CDBG and Section 108.
- The share of CDBG entitlement funds that benefit low- and moderate-income persons remains at 92 percent.
- The share of the states' CDBG funds that benefit low- and moderate-income persons remains at 98 percent.
- The number of single-family properties rehabilitated under Section 203(k) increases by 4 percent to 18,600.

### GAO's Observations on HUD's Fiscal Year 2000 Planned Performance for the Key Agency Outcome of Improved Community Economic Vitality and Quality of Life

The fiscal year 2000 annual performance plan was substantially revised from the fiscal year 1999 annual performance plan, and includes new strategic goals, performance goals, and performance measures. This outcome is incorporated under the new strategic goal to "improve community quality of life and economic vitality," with the following three new supporting objectives:

- The number, quality, and accessibility of jobs increase in urban and rural communities.
- The disparities in well-being among neighborhoods and within metropolitan areas are reduced.
- Communities are safe.

Of the 28 measures that HUD reported under this strategic goal, only 6 were carried over from the fiscal year 1999 performance plan. While the report does not specifically explain why the new measures were added, as discussed above, the introduction



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discusses the evolution of the plan and consultation with stakeholders that resulted in the changed structure. HUD reported to us that the Department reevaluated all of the fiscal year 1999 measures; some were replaced by superior measures; and others were included to emphasize outcomes and to further capture the business of the Department, as recommended by outside reviewers of the performance plans.

Given the substantial revisions in the performance measures from fiscal year 1999, there is limited connection between the fiscal year 1999 performance that is shown in the report and that planned for fiscal year 2000. The fiscal year 2000 annual performance plan does not reference actual 1999 performance for any of the indicators shown or provide any reason for the addition of the new measures, other than the general discussion related to the revisions to the annual performance plan, the means and strategies, and the performance goals.

As we reported, HUD improved its discussion of the means and strategies to achieve the strategic goals in the fiscal year 2000 performance plan, although the plan provides limited details on how the strategies will achieve the specific performance goals and measures. For example, the annual performance plan lists such strategies as: encourage communities to use CDBG grants to leverage private, nonprofit, and other public funding for economic development efforts and infrastructure investments to increase the number of quality jobs; link job-creation efforts to training and other services for low-income individuals to qualify them for newly created jobs; and focus CDBG funds on low- and moderate income neighborhoods to improve their conditions and infrastructure. The plan does not provide specific information on HUD's role in those activities, given that the CDBG program and other programs are essentially at the discretion of the community and outside HUD's control.

### Fiscal Year 2001 Performance Goals and Measures for the Key Agency Outcome of Improved Community Economic Vitality and Quality of Life

New performance goals directly related to this outcome

- Increase economic and social well-being in distressed neighborhood affected by New Market, CDBG and HOPE VI investment.
- Reduce the expansion of urbanized land to levels proportional to population growth.
- Increase the share of public housing authorities with Public Housing Drug Elimination Program (PHDEP) grants that achieve their crime-reduction goals.

New measures directly related to this outcome

- Unemployment rates among young, entry-level jobseekers in central cities decline by 0.5 percentage points annually to 17.5 percent by 2001.
- At least 90 percent of EZs and ECs achieve local goals in helping residents find jobs.
- HOPE VI Revitalization Development program for public housing relocates 2,300 families, demolishes, 4,100 units, completes 12,000 new and rehabilitated units, and occupies 11,100 units.
- EZs and ECs achieve local goals in six activities.

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- The share of housing authorities with PHDEP grants that achieve their crime reduction goals increase.

### Revised measures directly related to this outcome

- The national average ratio of central city to suburban median household income will reach 73 percent.
- The national average ratio of central city to suburban poverty rates decreases from 209 to 207 percent.
- The CEF pilot will securitize at least \$50 million in business loans in distressed areas by the end of fiscal year 2001, and the CEF trust will securitize \$300 million more by the end of fiscal year 2002.
- APIC-guaranteed venture capital investments produce significant business formation, job creation, and secondary economic activity and predominately serve targeted low- and moderate-income areas.
- A total of 256,500 jobs will be created or retained through CDBG and Section 108.
- FHA single-family mortgage lending in underserved communities increases by 10 percent from fiscal year 1999 levels to 494,000.
- Among all CDBG direct beneficiaries identified, the share that have low incomes remains at or exceeds 56 percent.
- The number of single-family properties rehabilitated under Section 203(k) increases by 2 percent to 19,000.
- Maintain or increase the number of jobs accessible to city residents by keeping the 3-year average ratio of city job growth to city population growth at least 100 percent.

### GAO's Observations on HUD's Fiscal Year 2001 Planned Performance for the Key Agency Outcome of Improved Community Economic Vitality and Quality of Life

The fiscal year 2001 annual performance plan continued the same structure as the fiscal year 2000 annual performance plan and, as discussed above, the 2001 annual performance plan is a further evolution of HUD's efforts to improve its performance reporting. Under the revised strategic goal to improve a community's quality of life and economic vitality, HUD generally does not explain why specific performance goals or measures were added.

For the nine measures revised from the fiscal year 2000 annual performance plan, no specific reasons were provided for eight of the changes. For the other measure, HUD specifically reports that the change is based on fiscal year 2000 performance. However, the plan also shows that the fiscal year 1999 performance fell substantially short of that expected and neither the fiscal year 2000 nor the 2001 targets are adjusted accordingly. Nor does the plan discuss how that shortfall will be addressed. For seven of the other eight measures, while no reason was specifically stated, the data in the annual performance plan suggest that the changes were due to the fact that

- three measures set targets for a new program established in fiscal year 2000 or a target had not been specified,

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- a methodology change occurred for one measure that was discussed in the fiscal year 1999 performance report,
- the expected level of performance apparently would not be achieved in fiscal year 2000 for two measures, and
- difficulties were encountered in identifying whom to count for one measure.

In general, the revised goals and measures continue to improve HUD's presentation of what the Department intends to achieve during fiscal year 2001. HUD clearly states the expected performance for each measure that will allow subsequent comparison with actual performance. HUD expanded its discussion of its coordination activities with other federal agencies to include information on the purposes of the activities and the contributions of the agencies involved. For example, under the section that discusses the number, quality, and accessibility of jobs increasing in communities, the plan discusses that HUD is part of the National Brownfields Partnership, which brings together resources from over 20 federal agencies and nongovernmental organizations. HUD provides participating communities with technical assistance, and has signed a memorandum of understanding with the Army Corps of Engineers to access its skills in cost-benefit analysis, site planning, and construction to lower the cost of redevelopment. The discussion generally does not discuss the contributions of other agencies' to specific goals and measures.

We reported that the fiscal year 2000 annual performance plan was an improvement and was well on its way to addressing the weaknesses we identified in the 1999 annual performance plan. The key weaknesses we identified in the fiscal year 2000 annual performance plan were that it

- did not show how budgetary resources are allocated to achieving performance goals,
- provided limited confidence that the performance data would be credible,
- did not link its human resources to its strategic goals and objectives, and
- did not describe planned coordination strategies.

The fiscal year 2001 annual performance plan takes steps to address three of the four weaknesses. The annual performance plan includes separate tables in the back of the plan to allocate HUD's budget and staff resources among the major programs at the strategic goal level; however, it does not break down the budget or resources to show the resources necessary to achieve the specific performance goals or measures. As discussed above, the plan also improved the discussion of coordination strategies with other agencies.

While the plan does not increase confidence in the performance data, HUD provided additional information on the validation and verification of the performance data. For example, the plan explains why HUD cannot independently verify data for some measures. Also, one measure notes that an evaluation of the program will provide comparison data for verification purposes. Another measure states that results from one survey required by a grant program can be compared with results from another to verify performance results.

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### **Key Agency Outcome: Less Fraud, Waste, and Error in HUD's Programs**

#### Fiscal Year 1999 Performance Goal and Measure for the Key Agency Outcome of Less Fraud, Waste, and Error in HUD's Programs

##### Fiscal year 1999 performance goals and measures

- Goal: Capture, standardize, improve, and evaluate financial and physical data of the portfolio of properties for which HUD has a financial interest and/or statutory obligation (not specifically assessed in performance report).
- Measure: Determine desired structure to create and capture data electronically (not able to locate in performance report).
- Measure: Establish financial and physical baseline (partially met).
- Measure: Increase the percentage of entities physically inspected and scored (met, exceeded).
- Goal: Consolidate existing organizations and employees to create a business-like entity to deal with the enforcement activities of the Department (enforcement center established at the end of fiscal year 1998).
- Measure: Achieve a reduction in the number of troubled properties over the next 5 years (not specifically discussed).
- Measure: Increase savings to the federal government through recoveries obtained, savings in program funds, and avoidance of insurance claims (unclear).
- Goal: Establish a unified center for Section 8 payments processing, including budget, payments, contracting, financial statements, rent calculations and income verification (not specifically assessed).
- Measure: All approvable budgets, et cetera, received by due date will be reviewed and approved in time for payment to be made on the first date of the budget period or effective date (unclear).
- Measure: 90 percent of year-end settlements will be reviewed within 30 days (unmet).
- Measure: Any rejected payment will be corrected within 3 business days, if in control of HUD (unclear).
- Measure: All reserved funds will be contracted within 60 days, unless contract action is delayed by specific HUD decision (unclear).
- Measure: The Line of Credit Control System (LOCCS) will be continuously reviewed, and rejected vouchers will be paid within 3 business days, if in HUD's control (unmet).
- Measure: 90-percent reporting level will be attained and maintained for tenant data in the Multifamily Tenant Characteristics System (MTCS) and the Tenant Rental Assistance Certification System (TRACS) (met for MTCS, unclear for TRACS).
- Measure: All renewal reservations will be priced and approved prior to the expiration date of the increment and/or project being reviewed if funds are assigned by headquarters at least 10 business days prior to the expiration date (unclear).

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### GAO's Observations on HUD's Fiscal Year 1999 Actual Performance for the Key Agency Outcome of Less Fraud, Waste, and Error in HUD Programs

The fiscal year 1999 annual performance plan did not include a strategic goal directly related to less fraud, waste, and abuse or on HUD's management reform activities. However, the plan included a separate section on HUD's 2020 management reform efforts where it listed goals and measures to improve HUD's management and address its management challenges. We selected some of those goals and measures from that section of the performance plan as directly related to the outcome of reducing fraud, waste, and error in HUD's programs. Implementing HUD's 2020 Management Reform Plan was a priority management objective in the fiscal year 1999 governmentwide performance plan.

The performance measures are generally adequate to indicate the progress to be made toward the performance goals. For example, to achieve the goal related to the financial and physical condition of properties, the measures directly support the effort to gather the data, identify the baseline standards, and inspect the properties.

In general, the fiscal year 1999 measures and goals are objective, measurable, and quantifiable as they are stated. Some relate to establishing an entity or baseline, but the achievement of those goals or measures is also objective and measurable, once the baseline is set. Most of the measures are output oriented, related to increasing reporting, or related to improving processing times.

The results achieved for most of these goals and measures are not clearly presented in the fiscal year 1999 performance report, and we identified some inconsistencies in the information. We could not specifically identify one measure in the report, although it appeared to have been combined with another measure. Rather than using charts, as used in other sections of the report, the report primarily used narrative discussions, and the narrative often does not clearly report whether the goal or measure was achieved. For example, one of the measures is to correct rejected payments within 3 business days if it is within the control of HUD. The report discusses that the Financial Management Center (FMC) closely monitors all rejected payments and has developed a report that succinctly identifies every rejected payment. The report also states that the number of rejected payments has declined from 248 in 1998 to 47 in November 1999 and that rejections attributable to insufficient budget authority or a technical problem are monitored until they are corrected. None of that addresses whether the performance measure to correct rejected payments within 3 business days was achieved.

For the renewal reservations measure, it appears that HUD may have achieved the goal for processing "increments" before the expiration date of the contracts by the end of fiscal year 1999, but no mention is made of how that relates to "projects." The report also indicates that HUD did not achieve its objective during the year, and it is not clear that "renewals had been completed" in the HUD Central Accounting Processing System (HUDCAPS) is the same as the steps specified in the measure.

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We also noted another measure where the objective was apparently achieved, but we identified an inconsistency in the reporting. HUD reports that it exceeded the target for the measure—the number of entities physically inspected and scored; however, the number shown for physical inspections exceeds the number that HUD reported to us.

In our review of the fiscal year 1999 annual performance plan, we expressed concern about HUD's performance information. The fiscal year 1999 performance report generally discusses the data source or system for six of these measures and HUD reports that the source of data for three of these measures is HUDCAPS. However, HUD's Office of Inspector General has raised concerns about the ability of HUDCAPS to provide financial management data, including Section 8 payments. The performance report also indicates that data quality issues may exist. One measure, on the reserve funds contracted out within 60 days, notes that research by analysts was necessary in addition to the HUDCAPS information to report the results. Under another measure, the report notes that correction was made to the database so that it was significantly more accurate than in past years.

HUD revised the performance report to be more consistent with the framework adopted with the fiscal year 2000 annual performance plan, dropping some goals and combining other goals and measures. For this outcome, the fiscal year 1999 annual performance report did not separately report on two of the three goals we selected or discuss progress toward achieving those goals. For the one goal that was discussed related to establishing the Enforcement Center, the narrative in the performance report indicates that the center was established at the end of fiscal year 1998 and HUD made progress toward achieving the related measures during fiscal year 1999. However, it is not clear from the narrative how the accomplishments reported compared with the planned performance. Because of the progress toward the specific goals is not apparent, the remainder of the fiscal year 1999 discussion will focus on HUD's progress in achieving the performance measures.

### Unmet Fiscal Year 1999 Performance Measures for the Key Agency Outcome of Less Fraud, Waste, and Error in HUD Programs

#### Unmet fiscal year 1999 performance measures

- Measure: Achieve a reduction in the number of troubled properties over the next 5 years.
- Measure: Increase savings to the federal government through recoveries obtained, savings in program funds, and avoidance of insurance claims.
- Measure: 90-percent of year-end settlements will be reviewed within 30 days.
- Measure: Any rejected payment will be corrected within 3 business days, if in control of HUD.
- Measure: All reserved funds will be contracted within 60 days unless contract action is delayed by a specific HUD decision.

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- Measure: LOCCS will be continuously reviewed, and rejected vouchers will be paid within 3 business days, if in HUD's control.
- Measure: All renewal reservations will be priced and approved prior to the expiration date of the project being reviewed, if funds are assigned by headquarters at least 10 business days prior to the expiration date.

### Partially met performance measure

- Measure: 90-percent reporting level will be attained and maintained for tenant data in MTCS and TRACS.

### GAO's Observations on HUD's Unmet Fiscal Year 1999 Performance Measures for the Key Agency Outcome of Less Fraud, Waste, and Error in HUD Programs

The fiscal year 1999 performance report did not clearly address whether HUD achieved its performance measures in most cases, but discussions presented suggest that many of the targets were not achieved. For two measures, the report discusses delays experienced that may be intended to explain why the target was not achieved. For example, for the measure that at least 90 percent of year-end settlements will be reviewed within 30 days of receipt, the report notes that HUD processed a recapture of excess program reserves that took several months and delayed processing the year-end settlements. We did not identify in the narrative any information related to the reasons for not achieving the other measures. Additionally, two measures were combined in the report, and no specific assessment was provided on whether the individual measures were achieved.

For the measure that was partially met, the performance report indicates that the target was achieved for one component but does not provide information on whether it was met for another part of the measure. For the measure to attain and maintain a 90-percent reporting level in two databases that HUD uses to calculate tenant rental payments, the report states that one database reached a 97-percent reporting level; it does not indicate the reporting level for the other.

The fiscal year 1999 performance report did not provide plans, actions, or time frames for achieving unmet fiscal year 1999 goals in the future, although some of the narrative indicated that additional progress would be made in the next fiscal year. For example, the measure that 90 percent of all year-end settlements will be reviewed within 30 days noted that year-end settlements are a lower priority than other activities but also stated that a new report would be developed in fiscal year 2000 to help track the information. The measure that all reserved funds will be contracted within 60 days stated that FMC has a new report, and since it canceled all existing reservations at the end of fiscal year 1999, the contract reservations will be more timely in the future.

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### Fiscal Year 2000 Performance Goal and Measure for the Key Agency Outcome of Less Fraud, Waste, and Error in HUD Programs

#### New performance goals directly related to this outcome

- Reduce the share of assisted renters living in public housing or Section 8 units managed by public housing authorities deemed “troubled.”
- Reduce the share of households living in multifamily properties that have substandard financial management.
- Users and rating entities recognize improvements in HUD’s automated data quality systems.

#### New performance measures directly related to this outcome

- The share of public housing units managed by troubled housing authorities decreases by 5 percentage points.
- The share of tenant-based Section 8 assistance managed by troubled housing authorities decreases by 5 percentage points.
- Among households living in subsidized multifamily properties, the share living in developments that have substandard financial management decreases by 5 percentage points.
- The share of public housing units and assisted multifamily units that meets HUD-established standards increases by 1 percentage point.
- The share of public housing units and assisted multifamily units that contain life-threatening health and safety deficiencies decreases by 10 percentage points.
- Among Consolidated Plan grantees, 100 percent are reviewed remotely, and 20 percent are reviewed onsite for compliance with their plans.
- The share of CDBG entitlement funds that meet statutory and regulatory standards for timeliness of expenditures increases 5 percentage points.
- The household-weighted average Public Housing Assessment System (PHAS) score increases.
- The household weighted average Section 8 Management Assessment Program (SEMAP) score increases.
- 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 tenant-based Section 8 assistance managed by housing authorities that score highly for the determination of rent reasonableness 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
- HUD’s automated data systems are rated highly for usefulness, ease of use, and reliability.
- 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.



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- The share of HOME-assisted rental units for which occupancy information is reported increases by 5 percentage points to 75 percent.
- Action plans are required or sanctions are taken on every public housing authority that reports less than 85 percent of its program recipients into the MTCS according to MTCS standards.

### GAO's Observations on HUD's Fiscal Year 2000 Planned Performance for the Key Agency Outcome of Less Fraud, Waste, and Error in HUD's Programs

The fiscal year 2000 annual performance plan was substantially revised to include a strategic goal to “Restore Public Trust in HUD.” Under a supporting objective that “HUD’s workforce and partners are empowered, capable, and accountable for results,” HUD reported 24 outcome and output measures, 22 of which were new to the annual performance plan. The only two measures retained from the fiscal year 1999 plan were two measures related to HUD employees and partners that we did not select as directly related to the outcome. Implementing HUD’s management reform plan continued to be a priority management objective in the fiscal year 2000 governmentwide performance plan.

HUD did not provide specific reasons for the changes in the goals and measures, but it did note in the overview of this section that it was implementing a broad set of performance measures to help ensure that communities are meeting program objectives and using program resources appropriately. In general, the changes to the goals and measures focus more on the programmatic outcomes that HUD plans to achieve, rather than the broader management reform goals and measures that were in the fiscal year 1999 annual performance plan. As a result, these goals and measures may be more useful than those in the fiscal year 1999 annual performance plan. HUD also reported to us that the Department reevaluated all of the fiscal year 1999 measures and some were replaced by superior measures; others were included to emphasize outcomes and to further capture the business of the Department, as recommended by outside reviewers of the performance plans.

For these measures, HUD did not include charts showing baseline or trend data for these issues as was done for other measures in the performance plan but included narrative discussions only. For the new measures that we selected that directly relate to reducing fraud, waste, or error, HUD notes that baselines are, or would be, developed for all but three measures.

In the fiscal year 2000 plan, HUD listed means and strategies that, in general, supported the strategic goal to restore public trust in HUD. However, there was no discussion of the specific strategies that would be employed to achieve the performance goals and measures.

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### Fiscal Year 2001 Performance Goals and Measures for the Key Agency Outcome of Less Fraud, Waste, and Error in HUD Programs

#### New measures directly related to this outcome

- By the end of fiscal year 2001, an increased number of mission-critical data systems will earn data quality certifications on the basis of objective criteria.
- The share of completed CDBG activities for which grantees satisfactorily report accomplishments increases to 90 percent.

#### Revised measures directly related to this outcome

- Among households living in public housing and subsidized multifamily properties the share living in developments that have substandard financial management decreases by 5 percentage points.
- Ensure that contractors produce results by increasing annual obligations under contracts with performance-based features by 25 percent to \$30 million.
- The number of CDBG entitlement grantees that fails to meet regulatory standards for timeliness of expenditure decreases by 10 percent to 179.
- The share of tenant-based Section 8 assistance managed by housing authorities that score highly for income verification increases.
- The share of tenant-based Section 8 assistance managed by housing authorities that score highly for determination of rent reasonableness increases.
- The share of households for which rent determinations are correct increases for public housing and for project-based Section 8 housing.
- The share of units that meet HUD-established physical standards increases by 1 percentage point to 64 percent of public housing units and 79 percent of assisted multifamily units.
- Average number of life-threatening health and safety deficiencies observed per 100 properties inspected decreases by 10 percent annually between 1999 and 2001, from 100.8 to 81.7 per 100 in public housing and from 95.3 to 77.2 per 100 in assisted multifamily housing.
- Share of HOME-assisted rental units for which occupancy information is reported increases by 5 percentage points to 80 percent.
- Sanctions are taken or forbearance is granted for cause for every public housing authority that reports less than 85 percent of its program recipients into the MTCS according to MTCS standards.

### GAO's Observations on HUD's Fiscal Year 2001 Planned Performance for the Key Agency Outcome of Less Fraud, Waste, and Error in HUD's Programs

HUD's fiscal year 2001 annual performance plan revised the strategic goal, changing it from "Restore Public Trust" to "Ensure Public Trust" and revising one supporting objective—"HUD and HUD's partners effectively deliver results to customers." In the overview HUD states that the Department established the strategic goal, performance

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goals, and measures to help ensure that HUD remains focused on the continuous improvement of the organization and on producing results for customers.

While the annual performance plan does not specifically discuss why the measure to earn data quality certification was added to the plan, improving HUD's information and financial management systems is one of HUD's management challenges. Both GAO and the Inspector General have reported that HUD's information and financial management systems have continued to be a problem. HUD reports that additional planning is under way to continue addressing the issue. (See enc. II.)

HUD provides reasons for revising half of the measures related to this outcome. For 5 of the 10 revised measures, the changes are attributed to expected performance levels in fiscal year 2000, 3 of the 10 noted that the baselines have not yet been set, and no specific reason was given for the other 2.

In general, the changes provide a clearer picture of HUD's intended performance regarding the performance goals. They serve to make clearer statements of expected performance to compare with actual performance in subsequent years.

These goals and measures relate to HUD's operations and do not directly involve other federal agencies. As a result, there is no discussion of coordination with other federal agencies in the annual performance plan nor does it appear that there should be.

**Observations on the Department of Housing and Urban Development’s Fiscal Year 2001 Goals and Measures to Address Its Major Management Challenges**

The following table identifies the major management challenges confronting the Department of Housing and Urban Development. The left column lists the management challenges identified by our office and HUD’s Inspector General. The middle column discusses HUD’s progress in resolving the management challenges as reported in the fiscal year 1999 performance report. The right column discusses the extent to which HUD’s fiscal year 2001 performance plan includes performance goals and measures to address the management challenges that we and HUD’s Inspector General identified.

<b>Major management challenge identified by GAO</b>	<b>Progress in resolving major management challenge as discussed in the fiscal year 1999 performance report</b>	<b>Applicable goals and measures in the fiscal year 2001 performance plan</b>
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.	HUD discusses the management challenges identified by GAO in the performance report under a performance measure that “HUD will be removed from the GAO high-risk list.” The performance report states that HUD has made considerable progress in addressing its management challenges and that it has successfully implemented all key elements of the HUD 2020 Management Reform Plan. GAO has recognized that the management reform plan is a key factor for HUD to address its management deficiencies. However, the report does not provide information on specific results related to improving internal control weaknesses or specific performance goals or measures to address the internal control weaknesses identified by GAO. HUD’s management reform plan was a priority management objective in the fiscal year 1999 governmentwide performance plan.	The fiscal year 2001 annual performance plan does not include specific goals or measures to address HUD’s management deficiency related to internal controls. However, the performance plan does include measures related to monitoring or managing HUD’s real estate inventory, preventing losses to the FHA insurance program, improving the income verification by public housing authorities, and improving HUD’s data systems. In addition, in a separate section of the report, HUD discusses the activities it has under way to address its management challenges. It includes a discussion of HUD’s Management Control Program and discusses specific automated assessment subsystems to address concerns that HUD’s internal controls do not ensure that housing quality standards are met, tenant income eligibility requirements are met, and other statutory and regulatory requirements are adhered to.
Poorly integrated, ineffective, and generally unreliable information and financial management systems do not meet the needs of program managers and have weakened their ability to provide management control over housing and community development programs.	HUD discusses the management challenges identified by GAO in the performance report under a performance measure that “HUD will be removed from the GAO high-risk list.” The performance report states that HUD has made considerable progress in addressing its management challenges and that it has successfully implemented all key	Within the strategic goal that HUD and its partners effectively deliver results to customers, the plan includes one performance goal and two measures that specifically address systems issues <ul style="list-style-type: none"> <li>• Goal: Achieve improvements in HUD’s automated data systems that are recognized by users and rating entities.</li> </ul>

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	<p>elements of its 2020 Management Reform Plan. GAO has recognized that the management reform plan is a key factor for HUD to address its management deficiencies. However, the report does not provide information on specific results related to improving information and financial management systems weaknesses or specific performance goals or measures to address the information and financial management systems weaknesses identified by GAO. HUD's management reform plan was a priority management objective in the fiscal year 1999 governmentwide performance plan.</p>	<ul style="list-style-type: none"> <li>• HUD's automated data systems are rated highly for usefulness, ease of use, and reliability.</li> <li>• By the end of fiscal year 2001, an increased number of mission-critical data systems will earn data quality certifications based on objective criteria.</li> </ul> <p>Additionally, in the section on management challenges, the plan discusses HUD's financial systems integration project and other information technology improvements. The performance plan cites the success of its financial systems integration in achieving a centralized departmentwide general ledger; however, HUD experienced difficulties in the conversion to the new system and is not yet fully compliant with the requisite standards. HUD has refocused the financial systems integration project and expects to complete this project in late 2000.</p>
<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.</p>	<p>HUD discusses the management challenges identified by GAO in the performance report under a performance measure that "HUD will be removed from the GAO high-risk list." The performance report states that HUD has made considerable progress in addressing its management challenges and that it has successfully implemented all key elements of the HUD 2020 management reform plan. HUD's management reform plan was a priority management objective in the fiscal year 1999 governmentwide performance plan. HUD includes several performance goals and measures related to establishing some of the new organizations required by the 2020 management reform plan. The specific goals were to establish the Real Estate Assessment Center, the Section 8 Financial Management Center, and the Enforcement Center. The report states that these centers are operational and producing results. The performance report also includes a measure that all management reform organizational and program changes are implemented as scheduled.</p>	<p>The performance plan does not include specific goals or measures to address organizational deficiencies; however, the strategic goal to "Ensure Public Trust in HUD" is directly related to HUD's 2020 Management Reform Plan and HUD's efforts to develop a new business-like structure. In a separate section on its management challenges, HUD discusses its activities to implement the 2020 Management Reform Plan Plan, including its organizational and resource management changes. HUD reports it has fully implemented the management reform plan.</p>

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<p>Insufficient mix of staff with the proper skills has hampered effective monitoring and oversight of HUD's programs and the timely updating of procedures.</p>	<p>HUD discusses the management challenges identified by GAO in the performance report under a performance measure that "HUD will be removed from the GAO high-risk list." The performance report states that HUD has made considerable progress in addressing its management challenges and that it has successfully implemented all key elements of the HUD 2020 Management Reform Plan. HUD's management reform was a priority management objective in the fiscal year 1999 governmentwide performance plan. While HUD does not report specific performance goals or measures to address the staffing mix issue, the report does recognize the importance of new training and skills for HUD workforce development and includes a goal that focuses specifically on the workforce. The performance report includes a goal that HUD's workforce is empowered, capable, and focused on results with measures for (1) the percentage of employees who believe they are held accountable for results, rather than process and (2) employees who believe they have the authority, the skills, the tools, and the internal relationships to serve their customers. Additionally, the report also has a measure that all management reform organizational and program changes are implemented as scheduled or when authorized, which includes new training and skills for HUD's workforce development.</p>	<p>The performance plan does not include goals and measures specifically related to ensuring the appropriate mix of staff and skills; the strategic goal to "ensure public trust in HUD" includes a measure that HUD's workforce is empowered, capable, and focused on results. The background discussion for the measure states that HUD will use employee surveys to help ensure that staff know what their mission and goals are and that they have the authority, the skills, the tools, and the internal relationships to do their jobs.</p>
<p>Addressing the Urgent Year 2000 Computing Challenge: Our January 1999 high-risk series update emphasized that resolving the Year 2000 (Y2K) computing problem was the most pervasive, time-critical risk facing federal agencies.</p>	<p>HUD's performance report did not address this issue. In its comments on this report, HUD stated that it was considered the top-rated agency in the Cabinet and the third-rated agency governmentwide for Y2K preparations.</p>	<p>Not applicable because it is no longer deemed a major management challenge.</p>
<p>Computer Security.</p>	<p>The performance report did not address this issue. In its comments on this report, HUD stated that it is taking actions to improve computer security, including improving its mainframe, network, and personal computer platforms, as well as improving controls over personnel security access, largely</p>	<p>The performance plan does not specifically address this issue.</p>

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	because of recommendations made by GAO and the Inspector General.	
<b>Major Management Challenges Identified by HUD's Inspector General</b>		
The following eight material weaknesses in HUD's internal controls were identified in the 1998 consolidated audit:	The performance report includes a measure that HUD will consistently obtain clean financial statements, under which HUD stated that it continues to address the material internal control weaknesses to strengthen its internal management controls. HUD reports that it has corrective action plans for each of the material weaknesses and has made considerable progress in resolving the weaknesses as a result of its work in addressing the broad GAO high-risk areas.	The performance plan includes a performance measure that HUD will continue to receive unqualified audit opinions, as it received for its fiscal year 1998 financial statements. The performance plan states that the clean opinion was a major milestone in HUD's efforts to improve financial data systems and internal controls and shows the impact of management reforms on HUD's culture and organizational performance. The performance plan also includes a separate section on HUD's management challenges identified by GAO and the Inspector General and includes a table discussing the current status and strategies for fiscal years 2000 and 2001 for each of the eight previously identified material internal control weaknesses. However, the Inspector General's audit of HUD's fiscal year 1999 financial statements resulted in a disclaimer of opinion in March 2000 owing to difficulties HUD encountered in converting to its new general ledger system. The Inspector General continued to report five of the following issues as material internal control weaknesses, downgraded one to a reportable condition, and no longer separately reported on two, because of HUD's progress in addressing its resource issues. In its comments to this report, HUD notes that it has implemented corrective actions to address the issues associated with the disclaimer.
Complete improvements to its financial management systems.	The performance report does not specifically address the improvements to HUD's financial management systems, except as previously noted.	The performance plan includes a performance goal to achieve improvements in HUD's automated data quality systems that are recognized by users and rating entities. It also includes two performance measures <ul style="list-style-type: none"> <li>• HUD's automated data systems are rated highly for usefulness, ease of use, and reliability.</li> <li>• by the end of fiscal year 2001, an increased number of mission-critical data systems will</li> </ul>

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		earn data quality certification based on objective criteria.
Effective management of HUD's resources depends on successful completion of organizational changes.	As stated above, HUD reported that all key elements of the management reform plan are in place. HUD includes several performance goals and measures related to establishing some of the new organizations required by the management reform plan in the report. The specific goals were to establish the Real Estate Assessment Center, the Section 8 Financial Management Center, and the Enforcement Center. The performance report states that these centers are operational and producing results. The performance report also includes a measure that all management reform organizational and program changes are to be implemented as scheduled.	This is no longer reported as a separate material weakness by the Inspector General; however, the Inspector General stated it is critical that HUD continue with the implementation of its current plans for resolving the related issues.
Ensure subsidies are based on tenants' correct income.	Ensuring correct income for tenants and that correct subsidies are paid is not specifically addressed in this performance report. However, the performance report contains one measure that a 90-percent reporting level will be attained and maintained for tenant data in the Multifamily Tenant Characteristics System (MTCS) and the Tenant Rental Assistance Certification System (TRACS). MTCS is the data system used by the public housing authorities to collect and maintain tenant data.	To assist with ensuring that data on tenant income are correct, the performance plan includes the following measures: <ul style="list-style-type: none"> <li>• The share of tenant-based Section 8 assistance managed by housing authorities that score highly for income verification increases.</li> <li>• Sanctions are taken or forbearance is granted for every public housing authority that reports less than 85 percent of its program recipients into MTCS according to MTCS standards.</li> </ul>
Improve multifamily project monitoring.	Improving monitoring is not specifically addressed in this performance report. However, the performance report notes that HUD's Real Estate Assessment Center is operational and that physical and financial inspections are being completed, which is one of the important new tools to improve monitoring. The performance report also includes a specific measure to increase the percentage of project based Section 8 units in standard physical and financial condition. The report states that a baseline was established for physical inspections and that a financial baseline will be set in fiscal year 2000.	The performance plan includes measures under its strategic goal to "ensure public trust in HUD" that <ul style="list-style-type: none"> <li>• The share of units that meet HUD-established physical standards increases by 1 percentage point to 64 percent of public housing units and 79 percent of assisted multifamily units.</li> <li>• The average number of life-threatening health and safety deficiencies observed per 100 properties inspected decreases by 10 percent annually between 1999 and 2001, from 100.8 to 81.7 per 100 in public housing and from 95.3 to 77.2 per 100 in assisted multifamily housing.</li> <li>• Among high-risk or troubled multifamily projects referred to the Enforcement Center, the share that has aged pending enforcement and the share that has aged during enforcement</li> </ul>



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		processing will decrease.
Address FHA staff and administrative resource issues.	FHA's resources and staffing issues are not specifically addressed in the performance report.	This issue is no longer reported as a material internal control weakness.
HUD needs to continue to place more emphasis on early warning and loss prevention for FHA's insured mortgages.	The performance report includes a measure for the percentage of mortgage defaults and claims resolved by the use of loss mitigation and alternatives to foreclosure.  HUD reports exceeding its goal for fiscal year 1999.	This issue was downgraded to a reportable condition in the fiscal year 1999 financial statement audit. The performance plan includes a measure that the share of FHA mortgage defaults resolved by loss mitigation alternatives to foreclosure increases by 2 percentage points to 30 percent.
Improve FHA's federal basis and budgetary accounting.	The performance report does not specifically address FHA's federal basis and budgetary accounting.	The performance plan does not include goals and measures directly related to FHA's budgetary accounting issues.
Improve FHA's information technology systems to support the business processes more effectively.	The performance report does not specifically address FHA's information technology systems.	The performance plan does not include goals and measures directly related to FHA's information technology issues.
The consolidated audit also included 12 reportable conditions related to the following needs:  Improve HUD's management control program.  Refine performance measures.  Improve controls over project-based subsidy payments.  Continue efforts to improve oversight of housing authorities.	The performance report does not specifically address the 12 reportable conditions, other than as noted in the text that follows.  This condition is not specifically discussed.  The performance report does not include goals or measures related to improving its performance measures, but the introduction notes that HUD has continued to refine its planning process, including providing more detail and more outcome measures in the fiscal year 1999 performance report and the fiscal year 2000 and fiscal year 2001 performance plans.  The performance report included one measure that a 90-percent reporting level will be attained and maintained for tenant data in MTCS and TRACS (TRACS is the data system used by project owners that captures tenant information and calculates the proper housing assistance payment for each tenant). The report is unclear about whether the TRACS reporting performance was attained.  The performance report includes several measures related to the oversight of housing authorities	The performance plan does not include specific goals and measures related to the reportable conditions, except as noted in the text that follows:  This issue is no longer reported by the Inspector General as a reportable condition.  The performance plan does not contain specific goals or measures related to this issue.  The performance plan contains one measure related to improving controls over project-based subsidy payments--the share of households for which rent determinations are correct increases for public housing and for project-based Section 8 units.  The performance plan includes several measures related to the oversight of public housing authorities

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	<ul style="list-style-type: none"> <li>• Improve the quality of life for residents of public housing using the Public Housing Management Assessment Program (PHMAP) as the tool for measuring performance. HUD exceeded its goal to improve scores in fiscal year 1999. The measure notes that the Real Estate Assessment Center is now assessing the conditions at public housing authorities and that a new performance tool will be added to replace PHMAP, which adds a physical inspection of all public housing developments.</li> <li>• The number of public housing units in the Public Housing Capital Fund and Hope VI program that are approved for demolition and the number of units demolished increases. The performance report states that reducing the number of obsolete and distressed housing units is a key strategy in HUD's efforts to revitalize neighborhoods. HUD exceeded its goals.</li> <li>• Replace demolished public housing units. HUD exceeded its goals.</li> <li>• Increase the share of units meeting local codes. HUD exceeded its target.</li> <li>• Increase the percentage of HOPE VI projects and grants on schedule. HUD met its target.</li> <li>• Percentage of families with children moving toward self-sufficiency while in public housing to help track the success of public housing authorities in attracting working families. HUD exceeded its target.</li> <li>• Increase the number of public housing authorities with integrated Public Housing Assessment System (PHAS) scores. HUD met the goal.</li> <li>• Attain and maintain a 90-percent reporting level for tenant data in MTCS and TRACS. HUD exceeded its goal for MTCS, but it is not clear whether the TRACS goal was met.</li> </ul>	<ul style="list-style-type: none"> <li>• The HOPE VI Revitalization Development Program for public housing relocates 2,300 families, demolishes 4,100 units, completes 12,000 new and rehabilitated units, and occupies 11,100 units.</li> <li>• By helping housing authorities issue rental vouchers in a timely fashion, HUD decreases, by 10 percent, the share of the program administered by housing authorities with substandard lease-up rates.</li> <li>• The share of units that meet HUD-established physical standards increases by 1 percentage point to 64 percent of public housing and 79 percent of assisted multifamily units.</li> <li>• The average number of life-threatening health and safety deficiencies observed per 100 properties inspected decreases by 10 percent annually between 1999 and 2001, from 100.8 to 81.7 per 100 in public housing and from 95.3 to 77.2 per 100 in assisted multifamily housing.</li> <li>• As part of the effort to demolish 100,000 units of the worst public housing, demolish 12,000 units during fiscal year 2001.</li> <li>• The share of HUD-assisted units with functioning smoke detectors at the time of inspection increases by 1 percentage point to 93 percent of public housing and 97 percent of assisted multifamily units.</li> <li>• The share of developments that comply with specific fire safety standards increases by 3 percentage points to 82 percent for public housing and to 81 percent for multifamily housing.</li> <li>• Among families with children that receive Section 8 certificates or vouchers, the share that live in Census tracts with poverty rates below 20 percent increases by 1 percent annually to 62 percent, or 880,000 households.</li> <li>• The share of households living in public housing family developments that have mixed incomes increases by 3 percentage points.</li> <li>• The share of public housing units managed by</li> </ul>
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<p>Fully implement the Office of Community Planning and Development's strategy for overseeing grantees.</p> <p>Improve general system security and other controls.</p> <p>Overhaul security procedures for access to systems.</p> <p>Improve access controls for critical systems, including HUD's payment systems.</p>	<p>None.</p> <p>None.</p> <p>None.</p> <p>None.</p>	<p>troubled housing authorities decreases by 5 percentage points.</p> <ul style="list-style-type: none"> <li>• The share of tenant-based Section 8 assistance managed by troubled housing authorities decreases by 5 percentage points.</li> <li>• Among households living in public housing and subsidized multifamily properties, the share living in developments that have substandard financial management decreases by 5 percentage points.</li> <li>• The unit-weight average PHAS score increases.</li> <li>• The household-weighted-average Section 8 Management Assessment Program score increases.</li> <li>• The share of tenant-based Section 8 assistance managed by housing authorities that score highly for income verification increases.</li> <li>• The share of tenant-based Section 8 assistance managed by housing authorities that score highly for determination of rent reasonableness increases.</li> <li>• The share of households for which rent determinations are correct increases for public housing and for project-based Section 8.</li> <li>• Sanctions are taken or forbearance is granted for every public housing authority that reports less than 85 percent of its program recipients into the MTCS according to MTCS standards.</li> </ul> <p>No longer reported by the Inspector General as a reportable condition.</p> <p>The performance plan does not contain specific goals or measures related to this issue.</p> <p>The performance plan does not contain specific goals or measures related to this issue.</p> <p>The performance plan does not contain specific goals or measures related to this issue.</p>
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## Enclosure II

<p>Improve processes for reviewing obligation balances.</p>	<p>The performance report has one measure that all reserved funds will be contracted within 60 days for public and Indian housing tenant-based contract renewals. HUD reports that during fiscal year 1999, financial analysts researched the uncontracted funds to determine whether it should be contracted or canceled. The Financial Management Center has developed an internal report that identifies uncontracted reservations to facilitate research and to monitor resolution.</p> <p>The performance report also contains two measures related to processing year-end settlements in a timely manner that assists in identifying excess reserves. However, it is unclear from the report, whether the first measure was met and the narrative suggests that the second was not met. Both discussed changes to be made to the process during fiscal year 2000</p> <ul style="list-style-type: none"> <li>• All housing authorities and contract administrators who have not submitted a year-end settlement within 45 days of the end of the fiscal year will be notified of the impacts on the program or project.</li> <li>• At least 90-percent of the year-end settlements will be reviewed, reconciled, and approved in the system within 30 days of receipt, and underpayments will be scheduled for immediate payment, overpayments will be offset against the next available payments.</li> </ul>	<p>The performance plan does not contain specific goals or measures related to this issue.</p>
<p>Continue actions to resolve FHA's Secretary-held multifamily mortgage notes and minimize additional mortgage note assignments.</p>	<p>None.</p>	<p>No longer reported by the Inspector General as a reportable condition.</p>
<p>Sufficiently monitor and account for the FHA's single-family property inventory.</p>	<p>The performance report does not contain specific goals or measures related to monitoring FHA's single-family inventory but contains three measures related to selling the properties and increasing the net recovery</p> <ul style="list-style-type: none"> <li>• Percentage of single-family properties sold that were on hand as of October 1, 1998, which</li> </ul>	<p>The performance plan does not contain specific goals or measures related to this issue. The plan does include one measure that the net recovery of FHA real estate-owned sales increases by 1 percentage point to 63.7 percent.</p>

## Enclosure II

<p>Enhance the design and operation of general and application controls for FHA's information systems.</p>	<p>shows that HUD missed its fiscal year 1999 goal by 1 percentage point.</p> <ul style="list-style-type: none"> <li>• Percentage of projected acquisitions for October 1, 1998, to May 31, 1999 sold, which shows that fiscal year 1999 performance was substantially less than that projected (67 percent actual compared with 95 percent projected) and is attributed to the poor performance of one contractor.</li> <li>• Increase in net recovery on real estate-owned sales, which the report shows was exceeded for fiscal year 1999.</li> </ul> <p>None.</p>	<p>The performance plan does not contain specific goals or measures related to this issue.</p>
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**Comments From the Department of Housing and Urban Development**

**Comments From the Department of Housing and Urban Development**



Note: GAO comments supplementing those in the report text appear at the end of this enclosure.

**U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT  
THE DEPUTY SECRETARY  
WASHINGTON, D.C. 20410-0050**

June 20, 2000

Mr. Stanley J. Czerwinski  
Associate Director, Housing and Community  
Development Issues  
U.S. General Accounting Office  
441 G Street, N.W., Room 2T23  
Washington, DC 20548

Dear Mr. Czerwinski:

Thank you for the opportunity to comment on the General Accounting Office's (GAO) draft report, "Observations on the Department of Housing and Urban Development's Fiscal Year 1999 Performance Report and Fiscal Year 2001 Performance Plan." Overall, we find the GAO report to be balanced and useful in both recognizing the significant progress that the Department has made and is continuing to make, as well as pointing out areas where more effort needs to be expended.

It is generally recognized that HUD's Fiscal Year (FY) 1999 Annual Performance Plan (APP) and Report were initial efforts that will see substantial future improvements. In light of this, we are pleased that the GAO concluded that, "although HUD did not attain all of the specific goals set in its FY 1999 APP, it generally made progress toward them according to its FY 1999 performance report." In addition, although the report notes that we did not achieve all of our specific goals, there is recognition that there were real achievements in each of the four key outcome areas identified by Senators Thompson and Lieberman.

As you know, the past reviews by the GAO, the Congress, and the National Academy of Public Administration (NAPA) were very helpful in suggesting how to improve the Department's Government Performance and Results Act (GPRA) efforts. The report recognizes that HUD's FY 2001 APP addressed three of the four key weaknesses that GAO identified in its FY 2000 performance plan, including

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coordination strategies, budget and staff resource allocations, and data validation and verification issues. The fourth area is information on data sources; and although we have made progress in this area as well, we believe further substantial improvements will be recognized in FY 2000 and FY 2001.

See comment 1.

The GAO report further recognizes our progress in addressing major management challenges that previously led the GAO to classify HUD's programs as high risk, and specifically cites improvement in HUD's organization and staffing mix, related in large part to implementation of HUD's 2020 Management Reform Plan. However, the GAO identified two issues, Y2K and computer security, as not being addressed. We did not have an FY 1999 indicator for Y2K, but it should be noted that HUD was considered the top rated agency in the Cabinet and third rated agency government-wide for Y2K preparations. Regarding computer security, HUD is taking actions to improve computer security on all fronts, including its mainframe, network, and PC platforms, as well as improving controls over personnel security access. These corrective actions are largely related to prior audit recommendations from the GAO or the HUD Office of Inspector General (OIG), and are tracked and reported through the Departmental Automated Audits Management System and HUD's Federal Managers' Financial Integrity Act compliance. Computer security was not considered to be a central focus of the performance report and, therefore, was not addressed.

The following are our responses to some specific statements in the GAO report:

See comment 2.

- Increased homeownership was one of the four program outcome areas addressed by the review. The GAO report states that HUD missed its goal of achieving a homeownership rate of 67.5 percent, which is not accurate. Page 62 of the 1999 APP shows the 67.5 percent as an FY 2000 goal, although we admit there is some confusion in the presentation. As reported in the 1999 Annual Performance Report, the 66.9 percent achieved in FY 1999 is on target to meet the FY 2000 goal. The actual result of 66.9 percent is an historic record and a major achievement for the

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Nation and the private-government partnership that helped forge this success. Even if the Department had fallen somewhat short of its target, we believe that we would have achieved overwhelming success in this first of four critical areas identified in your report. In fact, this issue highlights that it is insufficient to simply score whether a target was missed or to identify what percentage of targets were missed in order to make a careful evaluation of the performance in each of the critical areas you examined. A further example is the record rate of homeownership in central cities of 50.9 percent. Although this is below what turned out to be an ambitious target of 51.5 percent, it should be viewed as a success, not simply a "miss." In the future, we will explore presentations in the Annual Performance Report that better display this type of progress.

- See comment 3. • We disagree with the report that we "met half of the targets for the...homeownership outcome," as our estimate is that we achieved 7 out of 12.
- See comment 4. • For the second key outcome area "affordable, decent, and safe rental housing," we believe that the Department achieved more than "about half" of our measures as reported on page 2. Under the most conservative measure, we achieved 58 percent, when counting the HOME related indicator as four separate indicators. If HOME is counted as a single overall indicator, then the percentage of targets achieved rises to 67 percent.
- See comment 5. • For the fourth critical area, "less fraud, waste, and error in HUD programs," the GAO report recognizes that HUD's "...plan included a separate section on HUD's 2020 management reform efforts that reported goals and measures to resolve HUD's management deficiencies, some of which are directly related to this outcome." We would like to emphasize that although we did not use a heading of "reduced fraud, waste and error," the HUD 2020



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management reforms do speak directly to this outcome. In addition, we are convinced that all of the management reforms, rather than "some," are contributing to more efficient operations of the Department and that they all result in reduced fraud, waste and error. Reducing fraud, waste, and abuse, in fact, is only one component of ensuring the public trust; and we believe that our management reforms have more far-reaching results, including a strong emphasis on performance. We concur with GAO's recognition that "much of the fiscal year 1999 performance plan is no longer relevant because HUD substantially revised its plan beginning with Fiscal Year 2000...the revisions introduced a goal to (Restore Public Trust in HUD) which included many new performance measures that are directly related to the outcome of less fraud, waste, and errors in HUD programs." We would emphasize that these improvements resulted from our discussions with the Congress, GAO, NAPA, and our stakeholders, and continued progress is reflected in both the FY 2001 APP and the revised strategic plan which will be submitted to Congress in September.

See comment 6.

- The report recognizes that the FY 2001 APP includes a separate 11-page section that discusses management challenges that GAO and the OIG have identified, as well as several measures that are indicative of the resolution of HUD's related internal control weaknesses. We would like to reiterate our position, in accordance with OMB's guidance in Circular A-11, that the GPRA-APP should only provide a summary of major management issues that impact performance measurement and outcomes. We have included a matrix with the status of HUD's major management challenges, consisting of a summary of our identified material weaknesses, and our current corrective actions and future strategies to address these issues. In our view, an effective system of management controls is an interrelated series of processes, inputs, and outputs that better assure that desired program outcomes are achieved. We have not included specific goals and measures for the correction of each of our individual management

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deficiencies, as those process-oriented corrective actions are tracked and reported on under other statutory requirements, such as the Federal Managers' Financial Integrity Act, the Chief Financial Officers Act, the Government Management Results Act, and the Office of the Inspector General Act. We have, however, included outcome measures that are reflective of the results of those management process improvements. Examples of such outcome measures cited in GAO's report include: improved physical conditions at HUD-supported housing, reduced numbers of ineligible participants, improper payments in HUD rental subsidy programs, and decreased instances of non-compliance with HUD program requirements. Each of these outcome measures have been strengthened through implementation of HUD's 2020 Management Reform Plan. These corrective actions and the implementation of HUD's 2020 Management Reform Plan are crucial to reducing fraud, waste, and abuse.

See comment 7.

- Regarding the GAO reference to the OIG's disclaimer of an opinion on HUD's FY 1999 financial statements, due to difficulties converting to a new general ledger system, it should be noted that HUD has implemented corrective actions to address the OIG's disclaimer issues and that the OIG has begun its review to confirm that corrective actions have been properly implemented.

See comment 8.

- In addition, we believe that the report should further recognize that the FY 2001 APP does include specific indicators that address our management challenges, although we remain open to discussing further efforts.

Key examples include:

- 5.1.1: HUD's workforce is empowered, capable, and focused on results.
- 5.1.a.O.: HUD continues to receive unqualified audit opinions.

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5.1.3: The average satisfaction of assisted renters and public housing tenants with their overall living conditions increases.

5.1.4: The share of public housing units managed by troubled housing authorities decreases by 5 percentage points.

5.1.5: The share of tenant-based Section 8 assistance managed by troubled housing authorities decreases by 5 percentage points.

5.1.f. and 5.1.g.: The unit weighted average PHAS and SEMAP score increases.

5.1.h.: The share of tenant-based Section 8 assistance managed by housing authorities that score highly for income verification increases.

5.1.j: The share of households for which rent determinations are correct increases for public housing and for project based Section 8.

5.1.9: HUD automated data systems are rated highly for usefulness, ease of use, and reliability.

5.1.L.1: By the end of FY 2001, an increased number of mission critical data systems will earn data quality certifications based on objective criteria.

5.1.k.: Among high-risk or troubled multifamily projects referred to the Enforcement Center, the share that has aged pending enforcement and the share that has aged during enforcement processing will decrease.

- See comment 9.
- GAO correctly points out that a good number of measures in the FY 1999 APP were not carried forward in 2000 and 2001 and that several new measures have been added, but "HUD did not explain why the new measures were added." Simply put, the Department reevaluated whether all of the FY 1999 indicators were still effective; and, in several cases, they were replaced by superior indicators. We also eliminated several measures that were process-oriented and that now are tracked through our Business and Operating Plans. In addition, the Department included many new measures to emphasize outcomes, to connect additional outputs to outcomes in accordance with logic models, and to further

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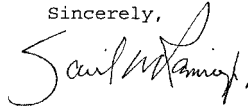
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capture the business of the Department--all of which were recommended by our outside reviewers.

- See comment 10.
  - GAO states that, "HUD generally did not discuss the effect of the fiscal year 1999 performance on estimated performance for FY 2000." This reflects the fact that the FY 2000 APP was published in March 1999 prior to having final performance data for FY 1999.
- See comment 11.
  - GAO notes that HUD modified some FY 2001 targets based on FY 2000 assumptions. We continue to calculate trend data and closely watch operations in order to appropriately adjust our targets as GPRA work products are developed and revised.
- See comment 12.
  - The GAO Report comments that the FY 1999 Performance Report did not address data sources and related data issues. HUD has already provided this information in detail in our FY 2000 and 2001 APPs. The OMB Circular A-11 guidance requires it in the APPs. The OMB Circular A-11 guidance also recommends that performance reports should discuss only "aspects of data collection and reporting that are specific to the fiscal year covered..." We attempted to address data issues in this limited way to enhance the readability of the report.

I wish to thank the GAO for continuing constructive input on our GPRA reporting processes and recognizing that HUD continues to make improvements to the measurement and accomplishment of substantive program performance goals.

Sincerely,



Saul N. Ramirez, Jr.

## Enclosure III

The following are GAO's comments on the Department of Housing and Urban Development's letter dated June 20, 2000.

### **GAO's Comments**

1. Regarding the statement in our draft report that two issues, Y2K and computer security, were not addressed in the fiscal year 1999 performance report, HUD stated that it did not have a performance measure for fiscal year 1999 for Y2K. However, the Department stated that it was considered a top-rated agency for Y2K preparations and is taking actions to improve its computer security on all fronts. We modified our report to include this information in our discussion of HUD's management challenges.
2. HUD recognized that there was some confusion about the presentation of the homeownership goal in its performance report but disagreed with our statement that it missed its goal of achieving the homeownership rate of 67.5 percent. HUD states that this was the goal for fiscal year 2000 and that it did not have a fiscal year 1999 goal. However, even though the performance report indicates there was no interim goal for fiscal year 1999, the performance plan estimated a target of 67.5 percent for fiscal year 1999. Additionally, the performance report also states that the fiscal year 1999 performance plan reflected the administration's goal of increasing homeownership to 67.5 percent by fiscal year 2000, which could only be accomplished if the target were achieved as of September 30, 1999. We clarified our discussion of this issue but did not change our assertion that HUD did not achieve its target level of performance.
3. We clarified our presentation of this information to show that HUD met 6 out of 14 targets directly related to the homeownership outcome.
4. We clarified our presentation of this information to show that HUD achieved its target level of performance for 7 of the 14 measures that were directly related to the outcome of increasing affordable, decent, and safe rental housing.
5. We recognize the significance of the management reforms to HUD but selected only the measures from the performance plan that, in our opinion, were directly related to this outcome of less fraud, waste, and error and were consistent with the guidance received for this review. Namely, some of the goals and measures that HUD refers to may be related to improving its operations but are broad, organizational goals that lack specificity, and the measures are generally not sufficient to track performance toward the goal in a meaningful way. We clarified the report to make it clear that we selected the goals and measures shown, and HUD had included others in the performance plan that were not selected for this review.

### Enclosure III

6. We recognize that HUD has included a presentation of the management deficiencies identified by the HUD Inspector General and us in its fiscal year 2001 annual performance plan and agree that this discussion is an improvement in HUD's performance plans. We also recognize the value of some of the reported measures to reflect the results of the management process improvements. However, we note that OMB Circular A-11, section 220.9(e) specifically states that "Performance goals for management problems should be included in the annual plan, particularly for problems whose resolution is mission-critical, or which could potentially impede achievement of program goals." OMB's guidance is clear that agencies should include performance goals for management problems but goes on to indicate that agencies have discretion about whether to otherwise describe the actions it has taken to address significant management problems. Section 220.11(e) states that the agency may also choose to describe actions it has taken to address significant management problems, particularly for those that are mission critical. We did not modify the report to address this comment.
7. We made appropriate changes to our report to reflect HUD's comments on the corrective actions it has taken to respond to the Inspector General's disclaimer of opinion.
8. All of the measures shown were included in the discussion of HUD's management challenges with the one exception. We modified the report to add the measure related to decreasing the number of aged cases under review at the Enforcement Center.
9. We modified the report to add HUD's comments on its reasons for replacing the fiscal year 1999 measures.
10. We modified the report, where appropriate, to note that HUD generally did not consider the effect of fiscal year 1999 performance on the estimated performance for fiscal year 2000 because the performance data was not yet finalized at the time the fiscal year 2000 plan was being prepared.
11. The report recognizes that HUD has continued to improve and adjust its performance measures, so no modifications to the report were made.

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Our statements in the draft report that were related to the sources of the performance data were intended to follow up on concerns we raised in our assessment of the fiscal year 1999 annual performance plan. Namely, the performance plan did not relate the Department's systems to specific indicators, discuss all of the systems from which performance data would be extracted, or discuss other limitations that may affect the performance measures. Also, in our assessment of the performance plan fiscal year 2000, we concluded that it provided limited confidence that the performance data will be credible. In general, the performance report did not provide additional assurances about the credibility of HUD's performance data. Therefore, we did not modify our report.

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