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**Comptroller General
of the United States**

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The President of the Senate
The Speaker of the House of Representatives

In 1990, the General Accounting Office began a special effort to review and report on the federal program areas its work identified as high risk because of vulnerabilities to waste, fraud, abuse, and mismanagement. This effort, which was supported by the Senate Committee on Governmental Affairs and the House Committee on Government Reform and Oversight, brought a much-needed focus on problems that were costing the government billions of dollars.

In December 1992, GAO issued a series of reports on the fundamental causes of problems in high-risk areas, and in a second series in February 1995, it reported on the status of efforts to improve those areas. This, GAO's third series of reports, provides the current status of designated high-risk areas.

This report addresses the Department of Housing and Urban Development (HUD), which we designated as a high-risk area in January 1994. The report discusses the corrective actions that HUD has taken or initiated since our February 1995 report (GAO/HR-95-11) and further actions that are needed. HUD's Secretary and top management team have continued to give high priority to correcting the deficiencies that led to our high-risk designation. They and other HUD directors and staff have made substantial efforts over the past 2 years in continuing to plan and starting to implement significant changes in the way the Department is managed. Our recent survey of key program directors in HUD field offices and our recent work involving specific HUD programs and management initiatives indicate that some of the actions that HUD has implemented thus far are having a positive effect.

While HUD has formulated approaches and initiated actions to address its Department-wide deficiencies, its efforts are far from reaching fruition, and HUD's programs continue to pose a high risk to the government in terms of their vulnerability to waste, fraud, abuse, and mismanagement. To reduce the risks associated with the agency's wide spectrum of operations, we believe that HUD can and should take several actions, including taking additional steps to eliminate major internal control weaknesses, completing its plans for major improvements to its automated information systems, completing its current plans for reorganizing field and headquarters offices, and completing its efforts to assess the skills of its staff members and develop appropriate training to address the skills needed for new job responsibilities. The Congress has an opportunity to help HUD successfully eliminate the deficiencies that make it a high-risk area by working with the Department on various proposals for restructuring the agency and consolidating, reducing, and/or reengineering many of its major programs.

Copies of this report series are being sent to the President, the congressional leadership, all other Members of the Congress, the Director of the Office of Management and Budget, and the heads of major departments and agencies.

James F. Hinchman
Acting Comptroller General
of the United States

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Overview

Since our 1995 high-risk report, the Department of Housing and Urban Development (HUD) has made some progress in overhauling its operations to correct the management deficiencies that led us to designate HUD as a high-risk area. However, many corrective actions are far from complete and problems continue.

HUD is the principal federal department responsible for programs dealing with housing, community development, and fair housing opportunities. Its missions range from making housing affordable by insuring loans for multifamily rental housing properties and providing rental assistance for about 4.5 million lower-income residents, to helping revitalize over 4,000 localities through community development programs, to encouraging homeownership by providing mortgage insurance to about 7 million homeowners who might not have been able to qualify for conventional loans. According to an analysis performed by the HUD Office of Inspector General in December 1994, HUD was responsible for 240 programs/activities. HUD is one of the nation's largest financial institutions, with significant commitments, obligations, and exposure. It is responsible for managing more than $400 billion worth of insured mortgages, $485 billion in outstanding mortgage-backed securities, and about $180 billion in prior years' budget authority for which it has future financial commitments.

The Problem

We designated HUD as a high-risk area in 1994 because of four long-standing, Department-wide management deficiencies that make the agency vulnerable to waste, fraud, abuse, and mismanagement. First, internal control weaknesses, such as a lack of necessary data and management processes, were a major factor leading to the HUD scandals of 1989. Second, poorly integrated, ineffective, and generally unreliable information and financial management systems failed to meet program managers' needs and weakened their ability to provide management control over housing and community development programs. Third, HUD had organizational problems, such as overlapping and ill-defined responsibilities and authorities between HUD headquarters and field organizations and a fundamental lack of management accountability and responsibility. Finally, an insufficient mix of staff with the proper skills hampered the effective monitoring and oversight of HUD's programs and the timely updating of procedures.

Progress

While HUD has formulated approaches and initiated actions to address the four Department-wide management deficiencies, HUD's planned actions are far from complete. In the area of internal controls, HUD has made limited progress, but major problems persist. In 1995, HUD fully implemented its new management planning and control program, which is intended to identify and rank the major risks in each program and to devise strategies to abate those risks. Furthermore, at the end of fiscal year 1995, HUD reported that it had only 9 material internal control weaknesses—down from over 51 in the early 1990s. HUD's Office of Inspector General, however, has questioned the (1) effectiveness of the Department's management control program in identifying material weaknesses and assessing front-end risks and (2) the Department's process for closing out three of eight material weaknesses during fiscal year 1995. Also, while the Department has greatly reduced its total number of material weaknesses, those remaining are significant and long-standing, and over the past 2 years, auditors have been unable to render opinions on HUD's financial statements because of weaknesses involving internal controls and financial systems. According to HUD officials, as of December 1996, four material weaknesses had final actions completed pending verification reviews. Finally, despite its importance as a management control tool, HUD's monitoring of program participants continues to be a problem area.

HUD continues to make progress in improving its information and financial management systems, but much work remains. It has moved beyond the planning phase, and portions of major new systems are becoming operational. Despite these efforts, some of the projects that involve major improvements to HUD's financial and information management systems will not be completed before the year 2000. Furthermore, HUD still has 93 systems that do not comply with the Federal Managers' Financial Integrity Act (FMFIA) and therefore cannot be relied upon to provide timely, accurate, and reliable information and reports to management. According to HUD officials, many of these systems will be replaced or enhanced as part of HUD's plan to integrate its financial systems. HUD's efforts to improve its systems have been hampered by problems with systems development, funding constraints, and data conversion problems.

To improve organizational structure, the Department completed a field reorganization that eliminated its regional office structure and transferred direct authority for staff and resources to the Assistant Secretaries and plans additional reorganization efforts. Although HUD has not evaluated the effects of this reorganization, most field directors we surveyed rated it successful overall and believed that the reorganization had achieved most of HUD's intended goals—namely, eliminating previously confused lines of authority within programs, enhancing communications, reducing levels of review and approval, and improving customer service.[1] HUD, however, realized that the reorganization had, to some extent, impaired communications across program lines at field offices and is taking actions it believes will alleviate the situation. HUD still plans additional efforts to empower field office personnel and to streamline headquarters and reduce HUD's total staff by 29 percent (from about 10,500 to 7,500) by the year 2000.

[1]HUD: Field Directors' Views on Recent Management Initiatives (GAO/RCED-97-34, Feb. 12, 1997). The survey, conducted during August 1996, obtained opinions on HUD's progress in correcting its four Department-wide management deficiencies. We surveyed 155 persons serving as Directors of Single-Family Housing, Directors of Multifamily Housing, Directors of Community Planning and Development (CPD), and Directors of Public Housing in the 40 largest HUD field offices in terms of staff. Included in the total are Directors of Housing, who are located in only 14 of the 40 field offices.

HUD has made some progress in addressing the problems with staff members' skills and with resource management. The Department has increased staff training since our 1995 report. Also, HUD has begun to implement a needs assessment process to plan future training. Although HUD has just begun to evaluate the effectiveness of its stepped-up training efforts, the directors we surveyed generally believed that the skills of their staff have improved over the past 2 years. However, 40 percent of these directors rated the Department's current training as less than good. The directors also said that more training is needed in the use of information systems, implementation of program regulations, HUD-related technical skills, and interpersonal skills. Moreover, we and HUD's Office of Inspector General have continued to identify staff resource problems in HUD's major program areas, specifically in public housing and at the Department's Federal Housing Administration (FHA).

Since our 1995 report, HUD has also continued efforts to restructure and consolidate its current wide array of programs—an outcome we believe is important to reducing HUD's risks to an acceptable level. These efforts will take on added importance over the next few years when coupled with the continued downsizing of HUD headquarters and field office staffs. The HUD Inspector General, in a March 1996 report, pointed out that staff reductions and redeployments have resulted in many critical program functions not being adequately performed and continuing imbalances in staffing-to-workload ratios from office to office. In our telephone survey, 77 percent of the directors pointed out that they had fewer staff than needed. The problems of inadequate staff resources to monitor and administer HUD's current array of programs likely will be compounded as the Department implements its downsizing plans over the next 4 years, unless actions are taken to consolidate, reduce, and/or reengineer HUD's existing programs.

HUD has updated its “Reinvention Blueprint,” now known as “Blueprint II,” which also includes a major proposal to “reengineer” its portfolio of multifamily rental properties with both FHA mortgage insurance and Section 8 project-based rental subsidies. In addition to HUD's reinvention and reengineering proposals, others have made a wide range of proposals, including to completely dismantle HUD. Although limited improvements to HUD's existing program structure have been made, no substantial changes to program-authorizing legislation have been enacted.

Further Action Needed

HUD's programs will continue to remain highly vulnerable to fraud, waste, abuse, and mismanagement until the agency completes more of its planned corrective actions and until the administration and the Congress reach closure on a strategy to either consolidate, reduce, and/or reengineer HUD's programs to bring the Department's management responsibilities in line with its capacity.

Although HUD may not have total authority to eliminate its fundamental deficiencies, the Department should (1) take steps to eliminate major internal control weaknesses, fully implementing its management control program and ensuring the proper balance between program delivery and program monitoring; (2) complete the efforts to integrate its major information and financial management systems and continue to take actions to meet the requirements of FMFIA; (3) complete its current plans for reorganizing headquarters and field offices, including redeploying staff and consolidating program activities and similar functions; and

(4) complete its efforts to assess the skills of its staff, develop appropriate training to meet the need for certain skills, and increase the number of staff receiving training.

In our view, the Congress now has an excellent opportunity to help HUD to eliminate its high-risk designation and to align the agency's management responsibilities and capacity by authorizing a major restructuring strategy that focuses HUD's mission and significantly consolidates, reduces, and/or reengineers its many separate program activities. HUD and others have proposed various reforms, but thus far substantial permanent reforms have not been enacted. What is needed now is for the administration and the Congress to agree on the future direction of federal housing and community development policy and put in place the organizational and program delivery structures that are best suited to carry out that policy.

Background

The diversity of HUD's missions has resulted in a Department that is intricately woven into the nation's financial and social framework and that interacts with a number of diverse constituencies, such as public housing authorities, private property owners, and nonprofit groups. HUD also spends a significant amount of tax dollars in carrying out its missions. The discretionary budget outlays for HUD's programs were estimated at close to $31.8 billion in fiscal year 1995, over three-fourths of which were spent on public and assisted housing programs. In addition, HUD is one of the nation's largest financial institutions, with significant commitments, obligations, and exposure. It is responsible for managing more than $400 billion worth of insured mortgages, $485 billion in outstanding mortgage-backed securities,[2] and about $180 billion in prior years' budget authority for which it has future financial commitments.

Our February 1995 report discussed the four long-standing, Department-wide management deficiencies that first led us to designate HUD as a high-risk area in January 1994. We reported that:

[2]Mortgage-backed securities are those insured or guaranteed by FHA, the Rural Housing Service, or the Department of Veterans Affairs.

1. Internal controls were weak. This was a major factor leading to the 1989 HUD "scandals" and their highly publicized incidents of waste, fraud, abuse, and mismanagement. Financial audits required by the Chief Financial Officers Act of 1990 found that material internal control weaknesses continued during fiscal year 1993 in HUD programs that insure, back, or provide lender capital for billions of dollars in home and multifamily rental housing mortgages. These material weaknesses included problems such as lack of staff and administrative resources for managing troubled assets, inadequate emphasis on providing early warning of and preventing loss through defaults, inadequate and unreliable automated management information systems, and inadequate monitoring of contractors. In December 1993, HUD identified its entire management control system as a material weakness under FMFIA.

2. Information and financial management systems were inadequate. These systems were poorly integrated, ineffective, and generally unreliable. They neither satisfied management's needs nor provided adequate control over HUD's housing and community development programs. These problems

occurred because historically HUD's information resources had not been planned or managed to meet the Department's missions and strategic objectives. HUD also lacked (a) a standard framework (architecture) to govern the management and use of information and information resources, (b) a data management program, (c) adequate security controls for its computer systems, and (d) contingency plans for the recovery and continued processing of critical systems in the event of a major disruption or disaster.

3. HUD's organizational structure was ineffective. Organizational problems included overlapping and ill-defined responsibilities and authorities in HUD headquarters, regional offices, and field offices; disagreement on program priorities; and poor communication of policy updates and management directives. A fundamental problem was the lack of management accountability and responsibility caused by the Assistant Secretaries' lack of direct line authority over the field office staff who implemented their programs.

4. HUD had an insufficient mix of staff with the proper skills. The number and qualifications of staff had proven inadequate

to perform essential functions, such as effectively monitoring programs and updating procedures. For example, inadequate staff and resources had hampered the performance of fundamental FHA activities, such as monitoring insured mortgage loans, servicing HUD-held mortgages, and managing foreclosed properties. Concluding that its methods of utilizing resources and formulating needs were inadequate, HUD designated resource management Department-wide as an FMFIA high-risk area in fiscal year 1993.

This report describes HUD's progress, since our February 1995 high-risk series, toward correcting its four Department-wide management deficiencies by (1) updating the status of the plans, proposals, and actions included in our last report; (2) describing the major new initiatives that HUD has begun or proposed since our last report; and (3) providing indications of the effectiveness of the actions HUD has implemented thus far through the perceptions of key program directors and examples from our recent work involving specific HUD programs and management initiatives. The report also discusses our reasons for continuing HUD's high-risk designation and further corrective actions that we believe are needed in order for us to remove that designation.

HUD's Progress Toward Correcting the Four Department-Wide Management Deficiencies

HUD directors and staff have continued to give high priority to correcting the deficiencies that led to our high-risk designation. Since our last report, the Department has completed some planned actions, continued to work toward implementing others, and formulated some new initiatives. However, many corrective actions are far from reaching fruition and problems continue.

Internal Controls

A strong internal control system provides the framework for the accomplishment of management objectives, accurate financial reporting, and compliance with laws and regulations. Effective internal controls serve as checks and balances against undesired actions, thereby providing reasonable assurance that resources are effectively managed and accounted for. The lack of good internal controls puts an entity at risk of mismanagement, waste, fraud, and abuse.

In February 1995, we reported that HUD was in the process of implementing a management planning and control program as part of its strategic performance system. Each of HUD's major program areas was to develop annual plans that contained management control elements which identified and ranked the risks in each program and then described how the risks would be abated. We also reported that actions were being taken on the internal control weaknesses identified in independent audits of FHA's and the Government National Mortgage Association's (GNMA) financial statements but that all actions were not complete and that all of the weaknesses had not been eliminated. The following subsections update and assess HUD's subsequent actions to address weak internal controls.

Questions About the Effectiveness of HUD's Actions to Reduce Internal Control Weaknesses

Management control programs for federal agencies are mandated by FMFIA and by supplemental requirements from the Office of Management and Budget (OMB). Each year, the federal Departments are to report whether their management control systems provide reasonable assurance that the requirements of FMFIA are being met, any new material weaknesses and nonconformance, and any corrective actions taken on previously existing material weaknesses. An agency's internal accounting and administrative controls generally should provide reasonable assurance that obligations and costs are in compliance with applicable laws; that funds, property, and assets are adequately safeguarded; and that revenues and expenditures are properly and reliably accounted for and reported. FMFIA also requires that accounting systems conform to the accounting principles and standards mandated by the Comptroller General of the United States.

In July 1994, HUD began implementing its new management planning and control program. According to a memorandum prepared by HUD's Chief Financial Officer (CFO) on the design of the new program, the process should be based on front-end risk assessments of new and substantially revised programs and ongoing monitoring of existing programs.[3] Fiscal year 1995 was HUD's first full year of implementing its strategic performance system, which includes the management planning and control program. In its March 1996 report to the Congress and the President on compliance with FMFIA, HUD stated that improved financial management, coupled with strategic program planning and performance, had enabled the Department to report no new material weaknesses for fiscal

[3]Front-end risk assessments of new and revised programs are designed to define the control environment, identify control risks, describe the systems needing additional controls, and document the actions required to reduce control risks.

year 1995.[4] The report also stated that on the basis of the substantial improvements that management had made during fiscal year 1995 and the progress achieved in reducing the number of material weaknesses and correcting material nonconformance, HUD could provide reasonable assurance that the objectives of FMFIA for management controls and financial systems were being met, with the exception of the material weaknesses and nonconformance specifically outlined in the report.

In August 1996, HUD's Office of Inspector General reported that it disagreed with the Department's statement on compliance with FMFIA's requirements. The Office disagreed because it believed that the Department had failed to consider (1) the magnitude of the problems acknowledged in its own FMFIA report and (2) additional material weaknesses pertaining to (a) inadequate verification of rental assistance payments, (b) the need to improve efforts to monitor public housing authorities, and (c) its inability to properly reconcile HUD's Fund Balance account with the Department of the

[4] Report on Compliance With the Federal Managers' Financial Integrity Act for Fiscal Year 1995, HUD (Washington, D.C.: Mar. 1996).

Treasury.[5] In addition, the Inspector General's report stated that weaknesses existed in the management planning and control program because HUD's major program areas were not performing front-end risk assessments on new or substantially modified programs, as required.

Also, of the eight material weaknesses reported closed by HUD during fiscal year 1995, the Inspector General found that three material weaknesses had been closed without following HUD's policy and the intent of OMB's Circular A-123.[6] Although the circular does not mandate that a verification review be performed before closing a material weakness, these sources call for a determination that sufficient corrective actions have been taken and that the desired results have been achieved before a material weakness can be considered corrected. From fiscal year 1993 through fiscal year 1995, HUD's verification reviews have been performed by the Inspector General or an independent contractor to determine if the actions have been implemented and the

[5]U.S. Department of Housing and Urban Development Report on Fiscal Year 1995 Financial Statements, Office of Audit, HUD, Office of Inspector General (96-FO-177-0003, Aug. 16, 1996).

[6]In response, HUD's CFO stated that HUD had complied with the guidelines pursuant to FMFIA; the contention that the Department closed material weaknesses without appropriate documentation was erroneous.

weakness abated. CFO officials told us that they had waived the formal verification reviews in two instances on the basis of the certification and documentation provided by program management that the problems were corrected and no longer material and in one instance because the program was targeted for future consolidation or elimination. Also, three other weaknesses that HUD reported as closed were simply merged into other larger, open material weaknesses because of an overlap of remaining corrective actions for two or more weaknesses.

To determine the prevalence of closing weaknesses without a verification review or by merging them into other open weaknesses, we examined HUD's stated procedures for closing material weaknesses in fiscal years 1992 through 1995 and found that, except in the three cases cited above, either the Inspector General or a contractor had performed verification reviews before closing material weaknesses. Also, we found that two weaknesses reported closed in fiscal year 1992 and four weaknesses reported closed in fiscal year 1993 were merged into other open weaknesses.

We are also concerned about the effectiveness of the management planning and control program in assessing risks and developing the abatement strategies to reduce them. We noted in our review of the management plans prepared by single-family and multifamily housing, public and Indian housing, and CPD for fiscal years 1995 and 1996 that (1) the only risks identified in the management control section of each of the management plans were previously identified material weaknesses and (2) the abatement actions were those outlined in HUD's report on compliance with FMFIA. We noted that HUD has not identified a new material weakness since its FMFIA report on fiscal year 1993 activities. According to an August 1996 OMB memorandum, failure to identify any new material weaknesses over the span of several years is reason to question a Department's assessment efforts. According to CFO officials, the Department will be adding several new material weaknesses for fiscal year 1996 within its FMFIA certification.

While acknowledging that the risks identified in the management control sections of the plans were previously identified material weaknesses, CFO officials noted that some of the program performance priorities and the strategies to reach the goals would reduce the Department's risks. Officials noted that in developing instructions for the fiscal year 1997 management plans, they hoped to provide a better link between the management plans, goals, and priorities and the management control elements associated with the risks in the programs.

Officials from HUD's Office of Housing-FHA Comptroller's Office and the Office of Public and Indian Housing told us that they rely primarily on financial audits and other audits by HUD's Inspector General to identify new material weaknesses. We believe, however, that the best qualified individuals to fulfill the requirements of FMFIA to identify existing or potential problems with the agency's programs are the federal directors of these programs. As of the end of September 1996, the Office of Housing had performed two front-end risk assessments. One assessment, dated October 18, 1995, was a limited review of the impact of Housing's reorganization on internal controls and corrective actions; the other, dated March 7, 1996, assessed HUD's hospital risk-sharing program, which provides mortgage and loan insurance for nonprofit and public hospitals. According to HUD officials, Housing expects to complete front-end risk assessments for three additional programs during fiscal year 1997. According to Office of Public and Indian Housing officials, that office has not yet had any new or substantially revised programs requiring front-end risk assessments. In September 1996, the Deputy Secretary issued a memorandum to program managers giving the CFO authority to delay program implementation when front-end risk assessments were not performed in accordance with established guidelines.

HUD's total number of open material weaknesses has decreased from 51 in fiscal year 1991 to 9 reported in the fiscal year 1995 FMFIA report. HUD also stated in the 1995 report that it considers itself to be in compliance with FMFIA but recognizes that it still faces serious problems, as identified by the remaining nine material weaknesses. Although HUD has reduced the total number of material weaknesses, those remaining are long-standing and involve large sums of money, and progress to abate them has been slow. The remaining open material weaknesses, as of the end of September 1996, are the (1) management and control of staff resources, (2) Section 8 subsidy payment process, (3) community development block grant entitlements,

(4) Section 236 excess rental income, (5) Section 235 accounting system, (6) single-family housing resources and asset management, (7) multifamily housing resources and asset management strategy, (8) Section 8 bond refunding program, and (9) title II prepayment and preservation program.[7] These material weaknesses, which were first identified in fiscal years 1983 through 1993, involve key HUD programs and billions of dollars. For example, material weaknesses affect more than $18 billion in the subsidy funds that HUD disburses annually, primarily through its Section 8 and Section 236 programs.

Legislation enacted in January 1996 eliminated a program that OMB had designated as a high-risk area. OMB had considered FHA's mortgage assignment program—a program designed to help borrowers in default—to be a high-risk area because the program's controls did not protect the financial interests and resources

[7]According to HUD officials, as of December 1996, four of these material weaknesses—the Section 236 excess rental income, Section 235 accounting system, community development block grant entitlements, and title II prepayment and preservation program—have final actions completed and have effectively resolved the material weaknesses with verification reviews pending. The Section 8 program provides tenant-based and project-based rental assistance; the Section 236 program is a rental housing assistance program; and the Section 235 program is a homeownership assistance program.

of the government. In October 1995, we issued a report raising concerns about the program, concluding that it had mixed results and high costs.[8] As a result, the legislation eliminated the program and provided HUD with the authority to assist borrowers in default by other means.

Financial Audits Continue to Identify Internal Control Weaknesses

The Chief Financial Officers Act of 1990 required HUD and some other agencies to report annually to the Congress through OMB on their financial status and any other information needed to fairly present the agencies' financial position and results of operations. To meet this requirement, either contracted public accounting firms or HUD's Office of Inspector General conducts annual financial audits of FHA's, GNMA's, and HUD's consolidated financial statements. These audits continue to identify material internal control weaknesses in FHA and other HUD programs. However, the fiscal year 1995 financial audit of GNMA found no remaining internal control material weaknesses.

The public accounting firm KPMG Peat Marwick LLP, in conducting the audit of FHA's financial statements for fiscal year

[8] Homeownership: Mixed Results and High Costs Raise Concerns About HUD's Mortgage Assignment Program (GAO/RCED-96-2, Oct. 18, 1995).

1995, found the statements were presented fairly, in all material aspects, in accordance with generally accepted accounting principles. However, the audit found continued material weaknesses in FHA's internal controls.[9] The weaknesses reported included the lack of staff and administrative resources for such tasks as performing loss mitigation functions, managing troubled assets, and implementing new automated systems; inadequate emphasis on providing early warning of, and preventing loss through, defaults; the need to quickly resolve HUD-held multifamily and single-family mortgage notes so that additional resources are available for monitoring; and the need to continue improving the accounting and financial management systems. The report added that given the complexity of the issues, implementing sufficient changes to mitigate the internal control weaknesses noted is a multiyear effort.

In August 1996, the Inspector General reported that it was not able to express an opinion on the reliability of HUD's consolidated financial statements covering fiscal year 1995. The Inspector General's reasons for not expressing an opinion were

[9] Federal Housing Administration, Audit of Fiscal Year 1995 Financial Statements, prepared by KPMG Peat Marwick LLP for the Office of Inspector General (June 7, 1996).

that material weaknesses prevent HUD from ensuring that federally subsidized housing units, for which more than $18 billion in funds are disbursed, are occupied by eligible families and that those families living in such units are paying the correct rents and, as a result, that the expenditures reported in the financial statements for these programs are fairly stated in all material respects or that expenditures comply, in all material respects, with applicable laws and regulations. CFO officials said that only a portion of the $18 billion in disbursements represents "excess subsidies." The officials said that the Department has initiated efforts to estimate the amount of excess subsidies for the fiscal year 1996 consolidated audit. This work, expected to be completed in February 1997, is being performed on a statistical sample of tenants from a database of the Department's assisted housing tenants.

Another reason that the Inspector General did not express an opinion on the financial statements was that HUD has not been able to reconcile a net difference of $190 million between its fund balance and the Treasury account. In December 1996, CFO officials provided us with documentation that shows that the difference between HUD's records and the Treasury has been subsequently reduced to about $35,000. HUD's Office of Inspector General told us that it could not verify the difference, but that $35,000 was approximately correct.

The report also identified the need to improve the monitoring of public housing authorities and multifamily projects as a material internal control weakness for fiscal year 1995.[10] The Inspector General's report stated that to improve its internal control environment, HUD, among other things, needs to upgrade financial systems and improve resource management.[11]

Weak controls continue to subject HUD to the risk of waste, fraud, abuse, and mismanagement. Often, these are discovered during audits or investigations, rather than being discovered from the routine operations of management controls in place. For example:

[10]In response, HUD's CFO said that he did not believe that the deficiencies cited in the Inspector General's report provided a sufficient basis to prevent the Inspector General from expressing an opinion on HUD's financial statements.

[11]The independent audit firm of Price Waterhouse reported that it was unable to express an opinion on HUD's consolidated financial statements covering the previous fiscal year due to many of the same problems. See Audit of the U.S. Department of Housing and Urban Development Fiscal Year 1994 Financial Statements Price Waterhouse (95-FO-177-0004, Aug. 28, 1995).

- A March 1996 Inspector General report stated that the lack of effective controls over software maintenance left HUD unable to (1) make informed decisions on replacing systems, (2) control the quality of software changes because the necessary data are not collected, and (3) hold contractors accountable for the quality and cost of their services performed because standards have not been developed.[12]
- The Office of Inspector General during fiscal year 1996 found cases of potential fraud or mismanagement in multifamily housing that included the following: (1) the general partner of a multifamily housing project made over $4 million in loans to his affiliated company without HUD's authorization between January 1994 and December 1995 and (2) contrary to a Regulatory Agreement, the agent/owners of another group of properties withdrew funds totaling over $1.1 million in excess of surplus cash, thus contributing to the default of one project and reducing the amount of operating cash for other projects.
- Between October 1, 1994, and March 31, 1996, 1,360 recipients of HUD funds were indicted on criminal charges; 412 were convicted and given prison sentences

[12] Controls Over Software Maintenance Must Be Significantly Strengthened, HUD, Office of Inspector General (96-DP-166-0001, Mar. 5, 1996).

totaling 752 years and probation or suspended sentences totaling 335 years. Much of the information that led to these penalties was uncovered by Operation Safe Home, a federal law enforcement task force that includes HUD's Office of Inspector General.

Directors' Views on Internal Controls

Although, a majority of the HUD field program directors we surveyed believed that internal controls generally were good, a significant percentage of them viewed the adequacy of internal controls on various activities as fair or poor. For example, directors rated internal controls as fair or poor in protecting resources from fraud (38 percent), ensuring that resources were used efficiently and effectively (31 percent), ensuring compliance with laws and regulations (44 percent), and ensuring that reported data are reliable (50 percent). About 78 percent of the directors believed that HUD headquarters has put a medium or high emphasis on reducing the risks of fraud and abuse, but they were split concerning the amount of emphasis needed. About 56 percent of the directors thought that the amount of emphasis was correct, and about 44 percent thought that it should be greater.

Monitoring of Existing Programs

Despite its importance as a management control tool, monitoring continues to be a problem area for HUD. The Department Management Control Program Handbook recognizes that monitoring program participants, either by on-site audit activities or remote monitoring, is a critical management control. In addition, a memorandum from HUD's CFO about HUD's efforts to design a new management planning and control program stated that controls over existing programs would be based upon monitoring. However, financial audits, our recent survey of HUD's field program directors, and our recent case study work at HUD's Massachusetts and St. Louis offices showed that adequate monitoring is not being carried out. A lack of staff resources, travel funds, and headquarters emphasis were cited by many of the field office directors we surveyed as reasons why monitoring is not being carried out. The following three examples from these various sources illustrate the monitoring deficiencies. We also found that a lack of monitoring was a problem in HUD's CPD programs.

- We and HUD's Inspector General found problems with field offices conducting the required annual physical inspections of multifamily properties identified as troubled or potentially troubled projects. We found that the St. Louis office had not inspected 20 of 44 troubled projects and 7 of 30 potentially troubled projects during the year preceding our case study work. Fifteen of these projects had not been inspected for at least 2 years. On the other hand, all nine projects that we looked at in the Massachusetts State Office had been inspected in 1995 or 1996, and the average time between the most current inspection and the previous one was about 14 months. HUD's Inspector General found that the required annual physical inspections were made for only 98 of 176 projects during fiscal year 1995 and that only 63 received a follow-up on identified deficiencies.

- Monitoring the performance of contracted Real Estate Asset Managers (REAM)[13] has also been a problem. At the Massachusetts State Office, which has a history of inadequate monitoring, we found that the contractors were not reviewing 10 percent of the REAM-managed single-family properties each month, which is HUD's expectation if adequate staff, travel funds, and time are available. In a June 1996 report, the

[13]HUD hires REAM contractors to perform day-to-day property management, including physical inspections, elimination of imminent hazards to the public, and preservation and protection of the property.

Inspector General stated that the Massachusetts State Office had not developed controls to ensure that its REAM contractors were adequately carrying out their responsibilities.[14] The Inspector General found that in spite of repeated problems with the timeliness and lack of submission of inspection reports by three REAM contractors, the HUD Office still had not established a system of procedures and controls to monitor the timely submission of the reports, track complaints, or perform on-site inspections. In November 1996, the Director of the Massachusetts State Office's Single-Family Housing Division said that since July 1996, the Division has established tighter controls over REAM activity. The Director added that the Division's Chief of Production and Real Estate Officer completed an on-site inspection of the REAM in August and that the monthly 10-percent reviews are now being done. In addition, a manual and computerized complaint log has been established and staff are tracking the resolution of complaints.

- During our case study work at the Massachusetts State Office, we selected 10 projects initially funded by the Community Improvement Assistance Program between

[14]Controls Over Real Estate Asset Manager (REAM) Contracts, Massachusetts State Office, HUD, Office of Inspector General (96-BO-123-0001, June 12, 1996).

1986 and 1992 to determine if HUD was monitoring them. For five projects, we found no documentation in the files that any monitoring had taken place. In addition, none of the 10 project files contained all of the required housing authority semiannual progress reports showing program fund expenditures and progress against approved implementation schedules. In September 1996, 1 month after we reviewed the files, officials provided us with additional documentation in the form of monitoring logs for fiscal years 1990 through 1993. The logs indicate that all but one of the 10 projects we had selected had been monitored at least once. However, the officials could provide only two additional monitoring reports that indicated the outcome of the site visits. No documentation was provided for any monitoring subsequent to fiscal year 1993.

HUD's field program directors believed that monitoring needs to be increased and given more emphasis by HUD headquarters. Seventy-one percent of the directors we surveyed said HUD needs to increase its use of on-site inspections, 58 percent said that HUD headquarters placed a low or medium emphasis on completing essential monitoring, and 42 percent said that headquarters should place a higher emphasis on monitoring, especially the on-site monitoring of HUD's clients and the monitoring of HUD's contractors. In December 1996, HUD officials said that to address these concerns, the Inspector General, along with a program office, issued a Compliance Supplement that directs independent auditors to address compliance areas of importance to HUD directors. According to these officials, with diminishing and stretched resources, directors should use independent auditors and related reports as a primary compliance monitoring tool.

Information and Financial Management Systems

In February 1995, we reported that HUD had (1) set up an information resource management (IRM) planning structure to give high priority to correcting long-standing problems with information and financial management systems; (2) clarified accountability by making Assistant Secretaries responsible for managing the information and financial systems in their program areas; (3) issued data administration standards; (4) taken some actions to strengthen computer security controls; (5) developed detailed plans for projects to improve financial systems; and

(6) begun revising its transition plan for integrating its overall financial systems.[15] We also reported that HUD needed to continue to improve support of its missions by strengthening planning for its strategic business and information resources management and by establishing a strategic information architecture and Department-wide data management program.

Since our 1995 report, problems with information and financial management systems have continued to negatively affect HUD's ability to effectively manage its programs. For example:

- In a June 1996 report on FHA's fiscal year 1995 financial statements, independent auditors continued to list FHA's automated systems as a material internal control weakness because some systems either did not provide needed management information or did not provide reliable information.
- In March 1996, HUD reported to the Congress that 93 of its information and financial

[15]HUD's projects to integrate financial systems include redesigning or developing its financial, information, and mixed financial/program information systems to meet the Department's business needs. Once the integration projects are completed, the data are supposed to be fully integrated either through a common database or through the ability to transfer data from one system to another electronically.

management systems did not meet the requirements of the FMFIA and therefore could not be relied upon to provide timely, accurate, and reliable financial information and reports to management.

- According to the Inspector General, problems with financial systems have also impaired FHA's ability to comply with the Credit Reform Act of 1990, which was enacted to better capture the government's cost of extending credit. FHA's single-family systems that account for periodic premiums are not capable of generating the case-specific cash flow data needed to comply with the act. HUD officials said that they have developed an action plan to have all systems comply with credit reform requirements by 1998.

Status of Plans for Improving HUD's Information Resource Management

HUD has continued taking steps to improve its IRM activities since our 1995 report. Many of these steps respond to specific recommendations made in our April 1994 report on HUD's IRM program.[16] For example, in June 1995 HUD released the first edition of its transition plan for integrating financial systems and issued a revised plan in August 1996. HUD's program offices have

[16] HUD Information Resources: Strategic Focus and Improved Management Controls Needed (GAO/AIMD-94-34, Apr. 14, 1994).

developed business strategy plans and information strategy plans to identify their strategic business and information needs. HUD recently completed a Department-wide information strategy plan and expects to publish a strategic IRM plan in early 1997. According to an official in the Office of Information Technology, HUD also recognizes the need to tie together the various planning activities so that the Department's strategic IRM plan and other plans are clearly linked together. A Systems Integration Steering Committee was established to oversee the implementation of the IRM plan. Other actions that HUD has taken over the past 2 years include (1) preparing an initial version of a Department-wide information architecture in September 1995; (2) establishing a Central Information Management function, establishing revised data administration standards and procedures, and providing a central data administrator with the authority to ensure compliance with Department-wide standards; (3) establishing a central data repository, issuing standards and procedures governing the repository, and providing training to program area and systems development personnel; and (4) partially installing security software on its mainframe computers to conform with the federal and departmental requirements for access to sensitive information and systems.

Continuing Challenges to Integrating Financial Systems

The lack of integrated financial systems has been a major part of HUD's long-standing IRM problems. Recognizing this lack, HUD is working to create a network of flexible, integrated computer systems that will enable program staff to oversee the financial and programmatic integrity of their operations. The efforts include establishing Department-wide financial systems with standardized data to meet the requirements of good financial management.

HUD has progressed beyond just planning for integrating its financial systems and is now beginning to bring some portions of the new systems into operation. Beginning with fiscal year 1995 appropriations, HUD's core accounting system has been processing administrative accounting functions. In addition, in August 1995 the Office of Public and Indian Housing implemented its portion of this system that will account for $8 billion to $9 billion of rental assistance provided to public and Indian housing authorities and the state agencies that administer the program. CPD also has begun to implement the Integrated Disbursement and Information System to account for the disbursement and track the use of funds under its four formula grant programs. Funding for these programs totaled about $6.7 billion for fiscal year 1995. As of December 1996, 106 grantees are operating on the system, and CPD had planned to have the remainder of the more than 900 grantees on the system by the end of calendar year 1998, according to a CPD official responsible for implementing the system. Recently, however, the Assistant Secretary for CPD agreed to delay the implementation of the system for some grantees until various problems cited by the grantees are addressed.

According to departmental information, HUD had a total of 116 systems classified as either financial or mixed (providing both financial and program information), as of March 1996.[17] Many of these systems will be replaced, and HUD will upgrade others to resolve integration problems, data problems, and deficiencies in the support provided to managers. However, for a number of systems HUD has yet to develop upgrade or replacement plans. A number of system integration projects are still in progress and are not scheduled to be completed for

[17]The actual number of systems in HUD's inventory may be counted differently, depending on whether systems and subsystems are counted separately. The 116 counts both systems and subsystems.

another 1 to 4 years. According to CFO officials, although HUD's systems are not currently fully integrated, HUD is able to record its financial transactions in its core financial system through a combination of system interfaces and manual transactions. These officials believe that this lack of integration does not impede the Department's ability to generate its financial statements in a timely and accurate manner or preclude the Department from obtaining an audit opinion on the consolidated financial statements. Table 1 shows HUD's major systems integration projects, the number of current systems that each will replace, and estimated completion dates.

Table 1: HUD's Major Systems Integration Projects

System name	HUD office	No. of systems to be replaced	Estimated completion date
HUDCAPS-Central Accounting and Program System	CFO	30	2000
Office of Public and Indian Housing-CAPS	PIH	N/A	9/97
Office of Public and Indian Housing-Integrated Business System	PIH	5	12/98
TRACS-Tenant Rental Assistance and Certification System	Housing	2	9/99
IDIS-Integrated Disbursement and Information System	CPD	5	12/98
FHAMIS-Federal Housing Administration Mortgage Insurance System	Housing	4	2001

Note: N/A= Not applicable because it is part of HUDCAPS. Each of HUD's systems integration projects currently has major modules operational. The estimated completion dates reflect the final phase-in for each of these systems.

Although HUD has made progress since our 1995 high-risk report, integration efforts have been hampered by systems development and data conversion problems. The Office of Inspector General reported in March 1996 that the systems development problems and delays were largely attributable to a combination of funding constraints and a continuing need for program management's stronger commitment to systems development and better project management.[18] Officials responsible for systems integration told us that data conversion has been another delaying factor. According to these officials, converting data from old systems to the new systems and ensuring that it is accurate have been more complicated and time consuming than anticipated.

Another challenge to HUD's future systems integration efforts, according to one official, will be to maintain consistent and adequate funding in a downsizing environment. Approved funding for the systems integration projects over recent years was $30.5 million for fiscal year 1994, $44.4 million for fiscal year 1995, and $33 million for 1996. HUD's budget request for fiscal year 1997 was $47 million. A final challenge may be that systems requirements could change once final decisions are made on restructuring HUD and its programs. (See later section that discusses the proposals to reform or "reinvent" HUD.) Once those decisions are made, some currently planned information and financial management systems may not be needed and/or there may be a need for completely new systems.

[18] Semiannual Report to the Congress, HUD, Office of Inspector General (Washington, D.C.: Mar. 1996).

Organizational Structure

In 1995, we reported that HUD had an ineffective organizational structure that included overlapping and ill-defined responsibilities and authorities between HUD headquarters and field organizations and a fundamental lack of management accountability and responsibility. We pointed out that HUD was in the process of reorganizing its field office structure and was just beginning to implement a plan for streamlining its headquarters organization, a plan which OMB had approved in October 1994. In September 1995, HUD completed the field office reorganization, which was intended to eliminate previously confused lines of authority, enhance communications, reduce levels of review and approval, and improve customer service. This action eliminated HUD's 10 regional offices, transferred direct authority for field program staff and resources to the Assistant Secretaries in HUD headquarters, and restructured the Department's 81 field offices. HUD plans to continue its reorganization efforts by reducing headquarters staff, redeploying staff, and further streamlining and consolidating field activities.

In our recent telephone survey, program directors in the state and area offices highly rated the success of the 1995 field office reorganization. Almost three-fourths of them rated the reorganization's overall success as either good (49 percent) or excellent (25 percent). They gave similar high marks to its success in achieving most of HUD's intended outcomes. Between 69 and 85 percent of the directors we surveyed rated progress as good or excellent in the categories of improving the lines of program management authority and accountability, empowering staff and field directors, and improving communications between the field and headquarters and between HUD and its customers.

Some directors commented that the new structure of field program directors reporting directly to higher-level program directors in headquarters had inhibited communication between program staffs at the field offices. They said that because there were now fewer reasons for the different program staffs to interact, they tended to be less informed about the developments in one another's programs. According to its Director, HUD's Field Reorganization Task Force became aware of this situation and by June 1996 had taken actions to correct it. Among other things, the task force granted "coordinators" in the state and area offices more authority to coordinate across program lines and added program integration requirements to senior managers' performance expectations and appraisals.

In January 1996, HUD announced additional efforts to reduce headquarters staff and further streamline its field organizational structure. A management action plan issued in April 1996 calls for, among other things, reducing headquarters staff from 3,500 to 3,000 by the end of fiscal year 1997, consolidating many program operations and processing functions into service centers, redeploying and training headquarters and field staff to better balance staff with service delivery needs, and closing up to 10 of HUD's 81 field offices by the end of fiscal year 1997. According to the Director of the Office of Departmental Operations and Coordination, HUD expects by the year 2000 to reduce total staffing from about 10,500, its level at the end of fiscal year 1996, to about 7,500 (a 29-percent reduction) and is currently studying closing additional field offices.

One of HUD's objectives in this further reorganization is to make itself a "community-first" Cabinet-level Department by, among other things, creating a smaller, decentralized workforce that is highly trained and that has a dramatically changed mandate to respond to local priorities. As part of this effort, HUD plans not only to reduce headquarters staff but also to restructure headquarters functions to those that are logically Washington based (e.g., policy development, budgeting, and congressional relations) and to transfer program delivery functions and staff to the field. HUD also plans to (1) give field staff more flexibility and authority to work with communities, (2) give the positions of Secretary Representatives and Office Coordinators at its state and area offices more power to solve problems and to make customer service a priority, and (3) redeploy and train up to 1,000 field office employees to help correct staffing imbalances and to place program delivery and decision-making authority nearer to communities.

In its March 1996 report, HUD's Office of Inspector General stated that while HUD's newly implemented field reorganization could provide more accountability within the existing program structure, it is not well-suited for carrying out this new vision of a "community-first, place-based" program delivery structure. The Inspector General was of the opinion that creating Secretary

Representative and Office Coordinator functions with limited authorities over field program directors would be inefficient and noted that this idea had been tried with limited effectiveness at other federal agencies.

Consolidating program operations is another objective of HUD's further reorganization plans. To help cope with decreasing resources and correct historical staff and workload imbalances, HUD is consolidating various field operations and processing functions into field service centers. For example, HUD established a regional center in Denver to process applications for FHA mortgage insurance on single-family homes that had formerly been handled by nine HUD field offices. HUD expanded operations of the Denver center and established additional centers in Atlanta and Philadelphia in fiscal year 1996. Ultimately, HUD hopes to consolidate all single-family processing functions into five regional service centers located in Denver, Philadelphia, Atlanta, San Francisco, and Chicago.

HUD's April 1996 management action plan also calls for creating "administrative" service centers and for consolidating accounting functions into service centers.

HUD plans to consolidate a number of administrative service functions (such as facility and property management, procurement, supply management, printing, and records management) into three centers. HUD's Chief Financial Officer also has proposed to consolidate accounting functions and close HUD's current 10 field accounting divisions (located in HUD's former regional offices) by the end of fiscal year 1998. The CFO plans to establish two administrative accounting centers (located in Atlanta and Fort Worth) that would centrally process all travel and procurement payments and one program accounting center (located in Denver) that would control funds and process payments for HUD's programs currently handled by the field accounting divisions located in Atlanta, Denver, and Fort Worth. Assuming that the planned integration of program accounting systems proceeds as scheduled, the CFO anticipates that workloads will be reduced to the point where the program center could gradually replace the remaining seven field accounting divisions by the end of fiscal year 1998, resulting in estimated savings of $6 million annually.

We also reported in 1995 that FHA was studying its organization. HUD subsequently formulated a legislative proposal designed to consolidate numerous FHA multifamily insurance authorities into one more flexible authority, provide more flexible products and pricing, reduce the government's insurance risks, provide multifamily loans through capable industry partners (such as housing finance agencies), and enable FHA to continue offering direct credit enhancements to serve unmet multifamily housing needs. The Congress has not yet enacted any legislative restructuring of FHA. However, while it is still seeking legislative changes, HUD notes that it has taken actions under its existing authority to improve FHA's business practices—for example, revising underwriting standards for insured single-family loans, entering into risk-sharing partnerships, and conducting asset sales to reduce its notes inventory and increase returns to the FHA insurance fund.

Staff and Skills

In our February 1995 high-risk series, we reported that HUD has had an insufficient mix of staff with the proper skills, which has hampered the effective monitoring and oversight of HUD's programs and the timely updating of procedures. We reported that given the reality of today's federal budget constraints, HUD has attempted to address the problem of staff and resource shortages primarily by initiatives designed to make more effective and efficient use of existing resources. We commended the Department's efforts to upgrade the skills of its staff through establishing a Training Academy in January 1994, developing a "distance learning" or satellite training curriculum, and creating individual development plans for employees. However, we also noted that both the National Academy of Public Administration and HUD's Inspector General had expressed concerns about the adequacy of the resources committed to these efforts.

Since our 1995 report, the Department has taken steps to increase the effectiveness of its staff training by beginning to implement a needs assessment process to plan future training, promoting the use of individual development plans for employees, expanding its use of distance learning, forming partnerships with colleges and universities to create new educational opportunities for staff, and substantially increasing expenditures for training. The needs assessment plan calls for (1) identifying the skills essential to HUD's mission, (2) surveying employees to assess the level of those skills in its workforce, and (3) planning a cost-efficient delivery system to satisfy the workforce's training needs. The Department's expenditures on training increased from $5 million in 1994 to $16 million in 1996. These steps increased the amount of training HUD provided its staff in fiscal years 1994 through 1996.

HUD's management of staff resources over the past 2 years also has been criticized. In a report to the Congress issued in March 1996, the Inspector General noted that HUD made decisions about staff reductions and redeployments in connection with its recent reorganization efforts without an adequate analysis of the impact these decisions would have on the Department's ability to administer its programs. The report stated that as a result, "many critical program functions are not being adequately performed, and . . . there are continuing imbalances in staffing-to-workload ratios from office to office." Consequently, the report concluded that ". . . there is little assurance that HUD's $1 billion for annual salaries and expenses budget is efficiently and effectively used to further HUD's mission and minimize program risks."

Over the past 2 years, we have reported on the continuing skill and resource management problems related to HUD's public housing program. In March 1996, we testified on the Department's recent efforts to deal with large, chronically troubled housing authorities that provide substandard or unsafe housing, such as those in Chicago, New Orleans, and San Francisco. We commended HUD's efforts but noted that requiring HUD to take over additional housing authorities in the future would overtax staff resources.[19] Moreover, we cautioned that focusing its already-stretched management resources on a handful of troubled authorities would prevent HUD from providing appropriate oversight of the majority of authorities that were not chronically troubled.[20]

Notwithstanding the above problems, our recent survey of HUD field program directors indicates that HUD's efforts may be producing some positive effects, but pockets of problems remain. Although 71 percent of the directors said the overall quality of training had improved over the last 2 years, about 40 percent of these directors rated the Department's current training as only fair or poor. The directors we surveyed generally believed that the skills of their staff have

[19] Housing and Urban Development: Limited Progress Made on HUD Reforms (GAO/T-RCED-96-112, Mar. 27, 1996).

[20] Housing and Urban Development: Public and Assisted Housing Reform (GAO/T-RCED-96-25, Oct. 13, 1995).

improved over the last 2 years. About 85 percent of the directors said that the skills of their staff had improved at least somewhat during that time. The directors were especially satisfied with their staffs' technical job skills and their knowledge of new programs. Although a majority of the directors were also satisfied with the skills of their staff, in three other areas, 27 percent of the directors were not satisfied with their staffs' knowledge of new regulations, 28 percent were not satisfied with their staffs' interpersonal skills, and 42 percent were not satisfied with their staffs' knowledge of information systems.

About 40 percent of the directors rated the quality of HUD's training curriculum as only fair or poor. A majority of the directors believed that training should be increased in each of the areas we asked about, particularly in the use of information systems (88 percent) and technical job skills (73 percent). One director commented that because HUD employees are now expected to do more than process forms and ensure compliance with agency regulations, they need training in marketing, outreach, finance, and monitoring. Other needs, according to one or more other directors, include training in credit underwriting, real estate appraisal, asset management, negotiation, and interpersonal skills.

We and other auditors also have continued to identify problems with staff members' skills and resource problems in specific HUD programs. For example, in June 1996 an independent audit firm cited limited staff and administrative resources as a material weakness that prevented FHA from devoting adequate resources to preventing losses, properly managing troubled assets, and quickly implementing new automated systems. In 1995, we also reported that FHA's ability to correct historical deficiencies in the management and oversight of loans to nursing homes and retirement centers could be negatively affected by FHA's planned restructuring and staff reductions.[21] In 1996, we also reported that FHA staff did not have sufficient health care expertise to manage the key program functions related to hospital mortgages and had to rely on the experience of Department of Health and Human Services staff to monitor hospitals' financial performance.[22]

[21]HUD Management: Greater Oversight Needed of FHA's Nursing Home Insurance Program (GAO/RCED-95-214, Aug. 25, 1995).

[22]FHA Hospital Mortgage Insurance Program: Health Care Trends and Portfolio Concentration Could Affect Program Stability (GAO/HEHS-96-29, Feb. 27, 1996).

Most of the HUD field program directors we surveyed considered the current staffing levels inadequate. The majority (77 percent) believed that they had fewer staff than needed to administer their programs. This was particularly true for the directors in multifamily housing and CPD. The directors said that staff reductions over the past 2 years had increased the remaining staff members' workload and that where program activities were not receiving adequate monitoring, lack of staff is a major reason. Most directors also cited staff members' lack of skills as a major or minor reason that some needed monitoring was not being performed.

Some directors in our survey also expressed concern that the recent organizational improvements could be undermined by planned staff reductions. Staffing levels, which were 12,800 in 1993 and reduced to about 10,500 at the end of fiscal year 1996, are expected to fall to 7,500 by the year 2000. In addition, some directors expressed concern that the Department's training efforts may not be able to keep pace with changing expectations for the skills needed by HUD staff—particularly given the likelihood of further reorganizations.

No matter how successful HUD's current efforts to address staffing and skill mix problems prove to be, they may not be enough to fully correct the Department's long-standing problems in the absence of a major effort to consolidate, reduce, or restructure HUD's current programs. The problems of inadequate staff resources to monitor and administer HUD's current array of programs likely will be compounded as the Department implements its plan to downsize to 7,500 by the year 2000, unless actions are taken to consolidate, reduce, and/or reengineer HUD's existing programs.

Proposals to Reform or "Reinvent" HUD

According to a December 1994 analysis done by the Inspector General, HUD had the responsibility for 240 programs/activities. During that same month, HUD announced a proposal, known as the "Reinvention Blueprint," which called for consolidating programs, devolving responsibility for program design and implementation to states and localities, and HUD's assuming the role of overseer and clearinghouse for national models. In 1995, HUD drafted a legislative proposal designed to implement its Reinvention Blueprint; however, it was never introduced as a bill in the Congress.

HUD has since drafted a revised, but similar, plan known as "Blueprint II."

HUD's Blueprint II incorporates HUD's "mark-to-market" and later "portfolio reengineering" proposals, which were designed to address the long-standing problems in HUD's insured multifamily Section 8 portfolio amounting to about $18 billion. The portfolio suffers from three basic problems—high subsidy costs, high exposure to insurance loss, and the poor physical condition of some properties. To address these problems, HUD in 1995 proposed a "mark-to-market" strategy to (1) eliminate project-based subsidies as contracts expired; (2) let the market set rents and restructure mortgages as necessary, (3) terminate FHA's insurance on refinanced mortgages; and (4) provide assisted residents with portable tenant-based subsidies.

In addition, others have made a wide variety of proposals for reforming or reinventing HUD, including proposals to completely dismantle the Department. While some limited, yet significant, improvements to HUD's existing program structure have been made, a comprehensive redesign of HUD's overall mission and program delivery structure has not occurred. Likewise, various bills to fundamentally restructure HUD's programs to subsidize multifamily rental housing also have been proposed, but thus far none has been enacted.

Further Action Needed

HUD deserves credit for its continued emphasis on, and progress toward, addressing its long-standing management deficiencies. While HUD has completed some actions, initiated other actions, and formulated some new approaches since our last report, many of its planned and proposed corrective actions are still far from reaching fruition. As a result, the Department's fundamental problems remain. Of particular concern is the persistence of material internal control weaknesses in some of HUD's largest dollar programs and the Department's lack of integrated information and financial management systems. Although the systems are being implemented in phased releases, until HUD completes integrating these data systems, which by its own estimates is years away, the lack of good information will continue to have a negative impact on the Department's operations and limit its capacity to adequately control and monitor funds.

HUD's programs will remain at high risk to fraud, waste, abuse, and mismanagement until the agency completes more of its planned corrective actions and until the administration and the Congress agree on and implement a strategy to either restructure, consolidate, reengineer, and/or reduce HUD's programs so as to bring the Department's management responsibilities in line with its management capacity. While it may not be totally within HUD's power to eliminate its fundamental deficiencies, it is nevertheless important for HUD to sustain and build on the corrective momentum it has generated thus far. While working toward the resolution of the broader issues of policy and structure, HUD needs to continue taking what actions it can to reduce to acceptable levels the risks associated with its wide spectrum of operations and to make substantial progress. Specifically, HUD needs to

- (1) take steps to eliminate major internal control weaknesses, (2) fully implement its management planning and control program and ensure that it meets the requirements of FMFIA, and (3) ensure the proper balance between program delivery/results and program monitoring;
- complete its efforts to integrate major information and financial management systems and continue to take actions to get all of its systems in compliance with FMFIA and improve their usefulness to managers in overseeing programs and monitoring day-to-day program activities;

- complete its current plans for reorganizing headquarters and field offices, including redeploying staff and consolidating program activities and like functions within its current legislative authority; and
- complete its efforts to assess its employees' skills, develop appropriate training to meet employees' needs for skills, and increase the number of staff receiving training.

In our view, the Congress now has an excellent opportunity to help HUD eliminate the deficiencies that make it a high risk and to align the agency's management responsibilities and capacity by authorizing a major restructuring strategy that focuses HUD's mission and significantly consolidates, reduces, and/or reengineers its many separate program activities. HUD and others have proposed various bills to reform or reinvent the agency, but thus far no major, permanent changes have been enacted. What is needed now is for the administration and the Congress to agree on the future direction of federal housing and community development policy and the organizational and program delivery structures that are best suited to carry out that policy. Given the high stakes involved (tens of billions of federal dollars each year), the inherent trade-offs involved in understanding and ranking the needs of those seeking HUD's assistance, and the other demands on the total federal budget, coming to closure on federal housing policy and the structure of HUD will likely take some time. Given the magnitude of the many tasks at hand, we believe that HUD continues to pose a high risk to the government in terms of its vulnerability to waste, fraud, abuse, and mismanagement.

Related GAO Products

HUD: Field Directors' Views on Recent Management Initiatives (GAO/RCED-97-34, Feb. 12, 1997).

Multifamily Housing: Effects of HUD's Portfolio Reengineering Proposal (GAO/RCED-97-7, Nov. 1, 1996).

Housing and Urban Development: Limited Progress Made on HUD Reforms (GAO/T-RCED-96-112, Mar. 27, 1996).

FHA Hospital Mortgage Insurance Program: Health Care Trends and Portfolio Concentration Could Affect Program Stability (GAO/HEHS-96-29, Feb. 27, 1996).

Homeownership: Mixed Results and High Costs Raise Concerns About HUD's Mortgage Assignment Program (GAO/RCED-96-2, Oct. 18, 1995).

Housing and Urban Development: Public and Assisted Housing Reform (GAO/T-RCED-96-25, Oct. 13, 1995).

HUD Management: Greater Oversight Needed of FHA's Nursing Home Insurance Program (GAO/RCED-95-214, Aug. 25, 1995).

High-Risk Series: Department of Housing and Urban Development (GAO/HR/95-11, Feb. 1995).

HUD Information Resources: Strategic Focus and Improved Management Controls Needed (GAO/AIMD-94-34, Apr. 14, 1994).

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