

September 1999

# HUD'S FISCAL YEAR 2000 BUDGET REQUEST

## Additional Analysis and Justification Needed for Some Programs



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**Resources, Community, and  
Economic Development Division**

B-283159

September 3, 1999

The Honorable Christopher S. Bond  
Chairman  
The Honorable Barbara A. Mikulski  
Ranking Minority Member  
Subcommittee on VA, HUD, and Independent Agencies  
Committee on Appropriations  
United States Senate

The Honorable James T. Walsh  
Chairman  
The Honorable Alan B. Mollohan  
Ranking Minority Member  
Subcommittee on VA-HUD, and Independent Agencies  
House of Representatives

As the Department of Housing and Urban Development (HUD) looks forward to fiscal year 2000, it faces a combination of limited funds and organizational changes. From fiscal year 1997 through fiscal year 1999, HUD's discretionary budget increased from \$16 billion to \$26 billion, primarily because of the need for additional budget authority to renew current and increasing numbers of contracts with rental property owners who provide housing to low-income households. In February 1999, HUD proposed an increase to \$28 billion to meet its needs in fiscal year 2000. In mid-April 1999, the Congress approved a concurrent resolution that established the congressional budget for the U.S. government for fiscal year 2000 and set forth budgetary levels for fiscal years 2001 through 2009. Industry groups representing housing and community development practitioners believe that these levels could severely limit the amount of new budget authority available for HUD's programs.

In addition to managing the Department within federal budget limitations, HUD is responding to internal changes resulting from the implementation of its 2020 Management Reform Plan announced in June 1997. The plan's purpose is to develop ways to manage HUD's programs and people more efficiently and responsibly. Under this plan, HUD is creating new ways of doing business throughout the Department, including centralizing many activities that had been conducted in HUD's field offices.

We agreed with your offices that our review of HUD's fiscal year 2000 budget request would respond to the following questions:

- Does HUD have the capacity to implement, and adequate justification to support, the new or significantly expanded programs and initiatives included in its budget request?
- What is the potential for HUD to use available unexpended balances in some programs to reduce its need for new funding in other programs?
- Has HUD adequately justified its use of or requests for funds in the following five areas: disaster assistance, salaries and expenses, Schedule C and non-career Senior Executive Service positions, rural housing and economic development, and international housing initiatives?

To answer these questions, we relied on HUD's budget documents, as well as information obtained from HUD's program and budget officials, HUD's Office of Inspector General, other studies published on selected programs, and our analysis of HUD's unexpended balance reports for fiscal years 1996 through 1998. We also drew on current or completed work on specific programs. Our scope and methodology are discussed in detail in appendix I.

## Results in Brief

Out of its total fiscal year 2000 budget request of over \$28 billion, HUD has requested \$731 million for 19 programs and initiatives that were not funded in fiscal year 1999<sup>1</sup> (see app. II). However, in our March 1999 testimony on HUD's fiscal year 2000 budget request, we questioned HUD's capacity to manage this volume of additional work because of the time-consuming organizational reform occurring at this time and the substantial resources HUD would need to implement new or expanded programs.<sup>2</sup> In our current review of one of the largest of these programs—Contract Administration, with \$209 million requested for fiscal year 2000—we found that HUD has not accomplished two tasks that are critical for effective implementation. As proposed, the Contract Administration Program would contract out for the administration of an additional 20,000 multifamily properties in HUD's project-based Section 8 housing assistance inventory. Although HUD has taken steps to identify qualified contractors, HUD has not established, to date, essential oversight procedures nor assigned key staff to monitor the contractors' performance. Furthermore, HUD recently decided to exclude certain properties from the program, which could reduce the need for fully

<sup>1</sup>We focused on programs and initiatives that the Congress did not fund in fiscal year 1999 or that could be significantly expanded in fiscal year 2000; however, some of the programs and initiatives may have received funding in prior years. HUD believes that only three of the programs we identified are new and that the remaining programs and initiatives represent increases or expansion within existing programs.

<sup>2</sup>Comments on HUD's Fiscal Year 2000 Budget Request (GAO/T-RCED-99-104, Mar. 3, 1999).

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funding the request. Therefore, HUD is not prepared to fully implement the program and likely will not need the full amount of its fiscal year 2000 budget request for this program.

The potential exists for HUD to better manage unexpended balances in a number of programs and for some unobligated funding to be used to meet other needs. However, determining the full extent to which unexpended balances are available for other purposes will require additional information and analysis by HUD. Our limited review identified some programs—such as the Homeless Assistance, Rent Supplement, and Rental Assistance programs—in which the need for carrying unobligated balances is questionable. It also showed that the unobligated unexpended balances for three selected programs—the Community Development Block Grant (CDBG), Community Development Disaster Assistance, and Drug Elimination programs—are caused by several factors, including HUD’s lengthy process for making competitive awards and funding allocation policies that delay providing funds to grantees. Taking steps to scrutinize and make more productive use of its unobligated balances is important because these balances have grown over the past 3 years for some of HUD’s existing programs—including some programs, such as Homeless Assistance (\$45 million) and Urban Empowerment Zones (\$105 million), for which HUD has requested \$234 million in increased funding for fiscal year 2000. Furthermore, we reviewed obligated balances in three programs mentioned above and identified “excessive” balances in HUD’s Community Development Block Grant Program<sup>3</sup> that totaled about \$360 million. We also are concerned that HUD does not independently verify, and therefore cannot ensure, the accuracy of the unexpended balances reported by its program offices.

For four of the five areas that you asked about, we found that HUD had adequate support for its budget request. In one area—salaries and expenses—it did not. HUD’s estimate of its fiscal year 2000 staffing level and the corresponding budget authority to support that level is not supported with a systematic analysis of its needs. In particular, HUD has not completed a cost-benefit analysis of its new cadre of over 780 “community builders” located in its field offices and headquarters.<sup>4</sup> However, HUD has taken a positive step by working with the National Academy of Public Administration to develop and test a staffing allocation model that should allow the Department to better estimate its resource requirements.

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<sup>3</sup>HUD defines excessive balances as unspent amounts greater than 1.5 times a grantee’s annual award.

<sup>4</sup>This is a new position that HUD began to staff in 1998. Persons in this position assist communities in making effective use of HUD programs and services and represent HUD in the community.

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## Background

Established in 1965, HUD was staffed by 9,157 employees as of June 1999 and is the principal federal agency responsible for programs in four areas—housing assistance, community development, housing finance, and certain regulatory issues.

- Housing Assistance: HUD provides (1) public housing assistance through allocations to public housing authorities and (2) private-market housing assistance under section 8 of the U. S. Housing Act of 1937 for properties—referred to as project-based assistance—or for tenants—known as tenant-based assistance. In contrast to entitlement programs, which provide benefits to all who qualify, the benefits of HUD’s housing assistance programs are limited by budgetary constraints to about one-fourth of those who are eligible.
- Community Development: Primarily through grants to the states, large metropolitan areas, small cities, towns, and counties, HUD provides community planning and development funds for local economic development under its CDBG and Empowerment Zone/Enterprise Community programs, housing development and related assistance under its HOME program, and assistance to the homeless under its McKinney Act Homeless programs. The funding for some programs, such as those for the homeless, may also be distributed directly to nonprofit groups and organizations. CDBG funds go to 847 localities and 137 large counties, plus 3,000 small cities and counties across the nation. The states also receive CDBG funds for distribution to small towns and rural counties.
- Housing Finance: The Federal Housing Administration (FHA) insures lenders—including mortgage banks, commercial banks, savings banks, and savings and loan associations—against losses on mortgages for single-family properties, multifamily properties, and other facilities. The Government National Mortgage Association, a government-owned corporation within HUD, guarantees investors the timely payment of principal and interest on securities issued by lenders of federally insured and guaranteed loans. FHA also administers the General Insurance and Special Risk Insurance programs, which include specialized single-family mortgage insurance programs, a number of multifamily insurance programs, and Title I insurance for manufactured homes and lots as well as home improvement loans.
- Regulatory Issues: HUD is responsible for regulating interstate land sales, home mortgage settlement services, factory-manufactured housing (prefabricated and mobile homes), lead-based paint abatement, and home mortgage disclosures. HUD also supports fair housing programs and is partially responsible for enforcing federal fair housing laws.

The Congress supports HUD's programs through annual appropriations that are subject to spending limits under the Budget Enforcement Act of 1990, as amended. For fiscal year 2000, HUD is seeking about \$28 billion in discretionary budget authority. In combination with unexpended budget authority from prior years, these funds will help to support about \$34 billion in discretionary outlays, most of which will be used to provide rental assistance to low-income households.<sup>5</sup> This request represents a 9-percent increase in budget authority over fiscal year 1999. In its Fiscal Year 2000 Budget Summary, HUD states that its proposed budget will provide for the renewal of all Section 8 housing assistance contracts, increases to virtually all program areas, and continued increases to other areas, such as the CDBG program and programs to address homelessness, that address communities' greatest needs. The summary also states that many program enhancements will be initiated. In addition, HUD proposes to fund several new activities from money set aside within existing programs, such as CDBG.

## New Programs Will Tax HUD's Capacity, and One of the Largest May Not Be Ready for Implementation

In accordance with its 2020 Management Reform Plan, HUD is currently implementing a complex and far-reaching organizational reform effort to improve the effectiveness of its operations and to address long-standing management problems. In the process, HUD is moving and retraining many of its employees so that they can staff several new centralized offices, such as the Financial Management and Real Estate Assessment Centers. In this environment, HUD may find that marshaling the resources necessary to embark on a series of 19 new programs and initiatives may be difficult. New or expanded programs require substantial resources to plan, implement, and manage, and it is uncertain whether these needed resources will be available as HUD undergoes the organizational changes outlined in its plan. While HUD is making credible progress toward implementing its reforms, we continue to believe, as we did in our testimony of March 3, 1999, that the Department may not have the capacity to effectively initiate and oversee the new or expanded programs being proposed for fiscal year 2000. Since the March hearing, HUD has revised its request slightly by retracting its funding request for 2 of the 19 proposed initiatives and redirecting those funds to established programs that HUD

<sup>5</sup>Budget authority is the authority provided by federal law to incur obligations that will result in outlays. Appropriations are the most common means of providing budget authority. Outlays are the measure of federal spending and are payments to liquidate obligations incurred over 1 or more years. Typically, outlays draw from unexpended funds that were appropriated not only in the current year but also in prior years. Therefore, HUD's outlay spending in fiscal year 2000 will differ from its request for new budget authority.

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believes have already proved their effectiveness (see app. II for a listing and a description of all proposed programs that were not funded in the prior fiscal year).<sup>6</sup>

We reviewed HUD's justification for one of the largest of these programs because of its relatively high dollar value—the Contract Administration Program—to determine whether the full amount of the request was justified. Since 1974, section 8 of the Housing Act of 1937, as amended, has allowed HUD to contract with private property owners to provide housing assistance on behalf of eligible low-income households. Currently, about 4,200 housing assistance contracts are administered by contract administrators, while HUD field staff administer the remaining 20,000 contracts. However, for fiscal year 2000, HUD is requesting \$209 million to hire eligible public agencies, such as public housing authorities or state housing finance agencies, to administer all 24,200 project-based Section 8 housing assistance contracts. Duties performed by contract administrators include

- conducting management and occupancy reviews and taking action on health and safety issues and on the results of physical inspections;
- submitting budgets, paying for Section 8 vouchers, and processing, renewing, and adjusting housing assistance payment contract rents; and
- monitoring owners' actions to address deficiencies in their financial statements.

According to HUD's July 1999 cost-benefit analysis of this proposal, contracting out for the administration of project-based Section 8 housing assistance could cost as much as \$19 million per year more than administering the program in-house. HUD officials believe that the increased cost for contract administrators is justified because, among other things, it would allow HUD field staff to perform more property monitoring and owner oversight to ensure that owners are complying with HUD's regulations, protect against fraud by owners and tenants, and hold owners accountable for the rental subsidy payments they receive. However, before HUD is ready to implement this program and effectively use the funding it has requested for fiscal year 2000, it needs to complete its planning and implementation of two key tasks: (1) establishing and disseminating formal procedures and performance standards for its staff to use in monitoring the new contract administrators and (2) adequately

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<sup>6</sup>HUD has asked the Congress to redirect to other housing programs the (1) \$10 million earmarked within the CDBG program for Metro Job Links and (2) \$25 million earmarked for the Regional Affordable Housing Initiative within the HOME Investment Partnership program. However this request has not been approved.



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staffing the new payment centers that it has established under its 2020 Management Reform Plan to manage the program and oversee the contractors.

We do not believe that HUD will have completed these two tasks in time to fully implement the Contract Administration Program in fiscal year 2000. For the first task, HUD has outlined a schedule for developing the necessary standards and monitoring plan. However, at the time of our review, milestones on HUD's schedule had begun to slip. For example, by August 1999, HUD did not have a draft, as it had planned, of the procedures for identifying and communicating its performance standards to all the HUD centers, headquarters, and field offices that are to be responsible for overseeing the contractors and the properties. According to a program official, HUD currently plans to have draft procedures by the end of September 1999 and will make them final by the end of October 1999. These procedures are critical to avoid past problems in overseeing the program—HUD's Office of Inspector General (OIG) has found instances in which existing contract administrators did not have the staffing and training needed to effectively monitor or identify problems in Section 8 properties. The OIG also found that some contract administrators were not performing all required duties, yet HUD was providing them with full compensation.<sup>7,8,9</sup>

Timely completion of the second task is also doubtful. Since 1997, HUD has undergone significant staffing changes that have resulted in reductions and in transfers to new positions and locations. While these changes are nearly complete, some locations are still understaffed, and newly placed staff are still being trained in their new responsibilities. According to the OIG, inadequate staffing in HUD's field offices already has resulted in insufficient oversight of existing Section 8 contract administrators. Moreover, in its review of HUD's financial statements, the OIG cited the need for better monitoring of contract administrators as a material weakness in monitoring multifamily projects.<sup>10</sup> We believe that HUD has taken a positive step by working with the National Academy of Public Administration to develop a methodology to fully assess its staffing needs. However, until

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<sup>7</sup>Interim Audit of Bond Refundings of Section 8 Projects, (93-HQ-119-004, Oct. 1992).

<sup>8</sup>Multi-Region Audit of Refunding of Bonds for Section 8 Assisted Projects, (93-HQ-119-0013, Apr. 30, 1993).

<sup>9</sup>Advisory Report on Section 8 Contract Administration, (99-BO-119-0801, Oct. 7, 1998).

<sup>10</sup>U.S. Department of Housing and Urban Development Audit of Fiscal Year 1998 Financial Statements, (99-FO-177-0003, March 29, 1999 pp. 31-34.)

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HUD completes and applies this methodology in the fall of 1999, fully staffs its centers, and retrains its staff, its ability to effectively implement this program and use all of the funding it has requested in fiscal year 2000 will be questionable.

Furthermore, changes HUD has recently made to the program could reduce the need for the full amount of its request for the Contract Administration Program. HUD plans to exclude properties that are owned by HUD, in foreclosure, referred to the Enforcement Center, or owned by parties who no longer intend to participate in the Section 8 housing assistance program. HUD based its proposed funding request on the need to contract out the administration of about 1.1 million housing units. However, according to a HUD official, recently excluded properties could reduce the number of units which, in turn, may reduce the need for fully funding the proposed program. HUD could not provide a firm estimate of the number of housing units to be excluded.

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## Potential Exists for Unexpended Balances to Be Used More Effectively

Unobligated balances that are not needed to meet current requirements in several of HUD's programs may be available to meet other needs, but additional analysis is needed on unobligated balances before the availability of these balances can be determined. In addition, proposed increases in about eight programs, amounting to \$234 million, raise questions because most of these programs have carried unobligated and undisbursed obligated balances over the last 3 years.<sup>11</sup> We also found excessive obligated but unexpended balances (excessive balances are those that are greater than 1.5 times the annual grant amount) in HUD's Community Development Block Grant Program amounting to \$360 million. We are concerned about the accuracy of all unexpended balances<sup>12</sup>—both obligated and unobligated—reported by HUD because most are not

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<sup>11</sup>Obligated funds are funds allocated under binding agreements that will result in outlays. These funds remain in HUD's budget accounts until all contractual payments are made. Unobligated funds are funds that have not been obligated and remain available for obligation under law. HUD has broken its unobligated funds into two classifications: reserved, or administratively set aside for a project, entity, or activity; and unreserved, or fully available for obligation under law.

<sup>12</sup>Unexpended balances are funds accumulated from previous years that have not been used to make payments. These balances include both undisbursed obligated and unobligated balances. The total unexpended balance (\$154 billion) differs slightly from the balance reported in HUD's Fiscal Year 1998 Financial Statement Report of March 29, 1999. This difference exists primarily because HUD updated amounts reported in the Department's year-end balance reports in preparing the financial statements and, in part, because of rounding differences.

independently verified.<sup>13</sup> HUD officials told us, however, that they are improving their analysis and reporting in this area through data cleanup efforts and improved data reporting systems. Although most of these efforts have been focused on Section 8 housing assistance programs, officials said that improvements will occur over time in other programs. Finally, we are concerned about delays in approving and awarding grants for some HUD programs and the contribution these delays have to creating unobligated balances.

HUD reported on September 30, 1998, that it had unexpended balances of about \$154 billion. This amount consists of both obligated (\$113 billion, or 74 percent) and unobligated funds (\$41 billion, or 26 percent) and is spread among programs that receive both discretionary and mandatory funds. Valid reasons exist for HUD to have unexpended funds. For example, HUD and its grantees and contractors often need to expend funds for multiyear construction projects and for housing assistance contracts that cover periods as long as 40 years and involve thousands of landlords. In addition, by law, FHA must maintain a reserve to cover potential losses in its loan portfolio. Funding for this reserve is mandatory and must equal at least 2 percent of the over \$380 billion in the outstanding balance of insurance in force that FHA had guaranteed as of September 30, 1998.

### Year-End Unexpended Balances Raise Questions About Need for New Discretionary Budget Authority

In its fiscal year 2000 budget documents, HUD estimates that it will have approximately \$5 billion in unobligated discretionary budget authority at the end of fiscal year 1999 (see app. III). Because this estimate is significantly lower than the \$14 billion HUD reported in its year-end unexpended balance report for fiscal year 1998, we worked with HUD's Office of Budget to determine the current status and causes of unexpended program balances that are not obligated for specific program needs. HUD officials told us that some programs either do not need those balances for future needs or that the program's need is not immediate. For other programs, additional analysis by HUD is needed to justify the Department's carrying the unobligated balances forward.

For example, in two housing assistance programs—Rent Supplement and Rental Assistance Payments—HUD reported unreserved, unobligated balances amounting to \$930.3 million, as of September 30, 1998. Through contracts with property owners, these programs provide supplemental

<sup>13</sup>In its audit of HUD's fiscal year 1998 financial statements, HUD's OIG states as a "reportable condition" that HUD's procedures for identifying and deobligating funds that are no longer needed to meet its obligations are not effective. The OIG attributes this condition to offices either not reviewing unliquidated obligations or not doing it in a timely manner.

rent payments to owners on behalf of low-income tenants. HUD has approved no new contracts for either program since 1973. The initial funding for these long-term contracts may have been insufficient because of rent increases. Accordingly, the Congress appropriated supplemental funding in 1983 so that HUD could amend the contracts with additional resources. Approximately \$1.5 billion was provided by the Supplemental Appropriations Act of 1983 to fund anticipated contract amendment needs over the lives of these two programs. HUD believes that the current unobligated balances should provide sufficient funds to cover the programs' future needs. HUD also stated that predicting the state of the economy over the terms of these contracts is not an exact science; thus, it did not believe that the funds remaining in the accounts should be viewed as excess. However, this conclusion is not based on a contract-by-contract analysis, as HUD recently has done for its project-based Section 8 rental assistance program.<sup>14</sup> That analysis revealed the amount of obligated funding available to each contract and whether shortfalls are expected through the end of the contract term that would require the contracts to be amended using as yet unobligated funds. In our view, without such an analysis of amendment needs of the Rent Supplement and Rental Assistance Programs, HUD lacks sufficient information to determine whether the existing unobligated funding will be needed for these programs or whether some is available for rescission and reappropriation to these programs on an as-needed basis.

Greater attention to unobligated balances in smaller programs is also needed. For example, two programs—Nonprofit Sponsor and Youthbuild—have unreserved and unobligated balances of \$5 million and \$400,000, respectively. According to HUD officials, these amounts are not needed to meet future requirements and could be considered for rescission, even though they are small relative to balances in some other programs.

In addition, HUD has proposed increases in several existing programs that have carried unobligated balances from fiscal year 1996 through fiscal year 1998. As table 1 shows, eight discretionary programs for which HUD has requested funding increases amounting to \$234 million for fiscal year 2000 carried unobligated balances in 1998, most since 1996. Several of these programs also carried obligated balances that had not yet been disbursed. Our review disclosed why some of these unobligated funds have not been

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<sup>14</sup>As discussed in our July 22, 1998, report, *Section 8 Project-Based Rental Assistance: HUD's Processes for Evaluating and Using Unexpended Balances Are Ineffective* (GAO/RCED-98-202), HUD has performed such an analysis to determine amendment needs for its Section 8 project-based rental assistance program.

obligated. For example, unobligated balances in the CDBG program are due to an extensive awards process to accommodate the increased number of set-asides in the CDBG program. Program officials cited similar reasons for balances observed in HUD's Homeless Assistance Program, including a deliberate two-step application process that HUD says both it and the grantees believe maximizes program results even though the process takes longer. For the Urban Empowerment Zone program, HUD does not grant funding to the zone until the zone submits and has received approval for all of its required planning documents. According to HUD officials, the Department is using its technical assistance funds for this program to assist the zones in developing their planning documents in order to accelerate the obligation process.

**Table 1: Requested Budget Increases for Fiscal Year 2000 Programs With Historical Unobligated Balances**

Dollars in millions

Program/initiative	FY 1999 enacted	FY 2000 request	Increase	Year-end unobligated balances			
				9/30/96 (actual)	9/30/97 (actual)	9/30/98 (actual)	9/30/99 (est.)
<b>Community Planning and Development</b>							
Community Development Block Grant <sup>a</sup>	\$4,750	\$4,775	\$25	\$726	\$777	\$832	\$0
Homeless Assistance <sup>a</sup>	975	1,020	45	888	955	1,019	0
Housing Opportunities for Persons With AIDS <sup>a</sup>	225	240	15	<sup>b</sup>	36	40	0
HOME Investment Partnership Grants <sup>a</sup>	1,600	1,610	10	182	210	236	0
Brownsfield Redevelopment	25	50	25	<sup>b</sup>	<sup>b</sup>	25	0
Urban Empowerment Zones <sup>a</sup>	45	150	105	<sup>b</sup>	<sup>b</sup>	4	0
<b>Policy Development and Research</b>							
Research and Technology <sup>a</sup>	38	40	2	2	3	12	0
<b>Fair Housing and Equal Opportunity</b>							
Fair Housing Activities <sup>a</sup>	40	47	7	13	8	23	0
<b>Total</b>	<b>\$7,698</b>		<b>\$234</b>				

<sup>a</sup>Also carried undisbursed obligated balances in 1998.

<sup>b</sup>Balances were not reported in HUD's Year-end Unexpended Balance Reports.

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When presenting its budget in recent years, HUD has assumed that large unobligated balances would be obligated by year-end. Historically, however, significant amounts of these balances have remained at year-end, which conflicts with guidance from the Office of Management and Budget that requires federal agencies to provide the Congress with a realistic estimate of each program's unobligated balance, if any. In addition to the programs shown in table 1 with estimated zero balances, HUD estimates that 12 other programs will have zero balances for fiscal year 1999, but these programs historically have had unobligated balances (see app. III). Accurate estimates are needed to give congressional decisionmakers better and more useful information for making budget decisions.

Although our review did not focus as much on programs with obligated unexpended balances as on those with unobligated balances, we believe that in some cases obligated funding warrants scrutiny. For example, HUD's regulations require CDBG grantees to expend their funds in a timely manner; however, the grantees do not always do so. Despite a prohibition on carrying balances that are more than 1.5 times as large as a grantee's annual block grant allocation—which HUD defines as “excessive balances”—259 entitlement grantees, or 26 percent, had balances as of March 31, 1999, that exceeded this restriction. The excessive portion amounted to \$360 million. Although HUD has a process for enforcing its regulation against carrying excessive balances, it has enforced this regulation only once, according to HUD officials. However, according to HUD officials, the Secretary recently has become personally involved in this matter and significant follow-up efforts are being made through HUD field offices, including providing increased technical assistance and substantially increased efforts in the area of monitoring.

Although HUD reports that as of May 1, 1999, only \$277 million remains to be obligated in the CDBG program, HUD has not responded to our request for information on whether recently obligated amounts have gone to grantees carrying excessive balances. Comparing grantees' balances with planned obligations would provide HUD with the information needed to avoid providing funds to grantees who are carrying excessive balances and are thus in violation of HUD's prohibition against such conditions.

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## Unexpended Balances Are Not Independently Verified

In monitoring its unexpended balances, HUD does not independently verify the accuracy of the amounts certified and reported by its various program offices. Each year, HUD prepares an Unexpended Balance Report based in

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part on data provided by its program offices.<sup>15</sup> In July, HUD's Budget Office prepares an Aging Report that identifies all program accounts with unexpended balances that had no activity during the 6-month period ending June 30. The Budget Office sends this report to program budget offices for them to certify whether the funds are still needed. If needed, the funds remain obligated to that account; if not, the funds are de-obligated from the specific project in the program account and made available for other uses within the existing program. Funds remain available for use unless they are statutorily transferred to another account. In addition, the Budget Office relies on the program offices' certifications in order to prepare its annual Statement of Budgetary Resources for certifying to the Treasury Department, as do other federal departments and agencies, that all obligations at the end of the fiscal year are proper.

HUD's OIG has said, and we agree, that unexpended balances should be verified before they are reported to Treasury. Moreover, unexpended balances should be verified before they are reported on the Department's Statement of Budgetary Resources. Although the OIG has verified Section 8 Assisted Housing funds, which represent a significant portion of the total reported unexpended balance for 1998, it has not systematically verified the balances reported in other program accounts. Verifying balances is important because the OIG recently found weaknesses in program offices' internal reviews of obligated balances as well as instances in which program offices identified but did not subsequently deobligate unneeded obligations.<sup>16</sup> HUD officials said they are working to improve their validation process, primarily through a recently implemented data cleanup effort that independently certifies the estimates for Section 8 contracts. However, this effort has not been expanded to include other programs.

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## Several Factors Impede the Timely Obligation of Funds

In two programs we reviewed—CDBG and Drug Elimination—we found substantial growth in unobligated balances from fiscal year 1996 through fiscal year 1998. In addition, CDBG grantees do not always spend their funds expeditiously.

Unobligated balances in HUD's Drug Elimination program grew from \$68 million in 1996 to about \$346 million in 1998, and unobligated balances in HUD's CDBG program have grown by more than \$50 million annually since

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<sup>15</sup>Data in the Unexpended Balance Report come from HUD's Government General Ledger, which contains data imported from program-specific databases.

<sup>16</sup>U.S. Department of Housing and Urban Development Audit of Fiscal Year 1998 Financial Statements, Mar. 29, 1999.

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1996 (see app. III). Several reasons account for these growing unobligated balances. First, in both programs, HUD's competitive awards processes have been time-consuming. For example, reviewing, rating, and ranking the large volume of Drug Elimination Grant applications has taken about 14 months, on average, from the time the funds are appropriated to the time when the awards can be made. However, HUD officials believe these grants will be awarded more quickly after HUD implements a plan to distribute them through a formula rather than a competitive process in fiscal year 2000.

In one CDBG program, Disaster Assistance, HUD has accumulated unobligated balances from 1997 and 1998 Emergency Supplemental Appropriations totaling \$142 million, as of March 3, 1999. This balance results primarily because of HUD's policy to hold back a portion of its emergency funds until the end of the year rather than to obligate all of them as needed. This obligation policy contrasts with that of the Federal Emergency Management Agency (FEMA), which obligates emergency appropriations from its disaster relief fund as a disaster occurs. While HUD's current time frames are comparable to some of FEMA's obligation time frames for its programs,<sup>17</sup> HUD officials plan to expedite obligations by changing their program's policy. With this policy change, disaster declarations will be processed individually instead of in batches, which would save over 6 months for some declarations. If implemented, this and other changes in the policy would cut the time for obligating funds from almost 2 years to 10 months.

Other significant differences that affect the obligation of funds also exist between the two agencies. For example, HUD's mission in disaster assistance is to fund unmet needs and to meet the long-term recovery needs of disaster areas, particularly when they include low-income communities. For this reason, the Department must depend on FEMA to identify communities' unmet needs after disasters are declared before obligating HUD's emergency funds. For the 1998 appropriations, FEMA identified unmet needs within 2 months after HUD's 1998 emergency funds were appropriated. In addition, HUD's authority to fund disaster relief is generally granted each year through an annual emergency supplemental appropriation, which requires that HUD fund all declared disasters with funds made available for that year. FEMA, by contrast, has continuous access to the Disaster Relief Fund, which provides resources to victims of all presidentially declared disasters and emergencies. Consequently, FEMA

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<sup>17</sup>FEMA's Hazard Mitigation Grant Program and the Public Works portion of its Public Assistance Program are comparable to HUD's CDBG Disaster Assistance Program.



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has more flexibility than HUD because it can obtain funding as needed for declared disasters.

Despite these differences, we believe that HUD could use some parts of FEMA's approach as the Department moves to expedite its obligations. For example, in its annual performance plan, FEMA has established internal performance standards to increase the timeliness of services provided to its grantees. HUD has no such standards. Furthermore, FEMA recently received funds totaling \$230 million that were transferred from HUD's Disaster Assistance Program and that carry the same limitations placed on HUD. FEMA staff have planned approaches, as yet untested, for obligating the funds quickly despite the limitations. For instance, their initial allocation to states requires these states to submit projects they want funded within 30 days. This policy allows FEMA to make award decisions soon after allocations are made.

HUD officials indicated that, given the limited funding available to meet extensive needs, the Department requires substantial needs analysis in order to make sound award decisions. HUD currently obtains this analysis, in part, by requiring the states to submit action plans. However, we note that HUD places no time restrictions on the states for completing these plans, and states have taken from 3 months to 2 years to complete them. FEMA staff are also experimenting with conditional obligations that will allow them to obligate the funds to grantees that meet certain conditions. In this way, they can commit the funds quickly under binding agreements with grantees and still maintain control by placing conditions on the use of the funds. Our work also shows that unobligated balances reported in HUD's unexpended balance report have increased in HUD's CDBG Disaster Assistance program since 1996—going from \$0 in 1996 to \$2.7 million in 1998. HUD budget officials stated, however, that as of July 13, 1999, only \$25,000 remained unreserved.

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**In One of Five Specific Areas, HUD Does Not Have Adequate Support for Its Budget Estimate**

You asked us to determine whether HUD had adequately supported its funding in five areas that you believed might affect your deliberations on the Department's fiscal year 2000 budget request. In four of the areas—disaster assistance, Schedule C and non-career Senior Executive Service positions, rural housing and economic development, and international housing—we found that HUD's budget was justified and clearly supported. However, our review showed that in the fifth area—HUD's salaries and expenses—adequate support did not exist.

Because HUD has not systematically analyzed its requested fiscal year 2000 staffing levels, which include community builders,<sup>18</sup> it cannot be certain whether it has accurately estimated its need for staffing resources and therefore the funds to pay for such resources, in fiscal year 2000. We commend HUD for the current effort it has under way with the National Academy of Public Administration. In this effort, HUD is testing a process for identifying and justifying its staffing requirements. However, until the new process is completed and implemented throughout the Department, HUD does not have complete assurance that it has the right number of people to achieve its mission. Thus, HUD may not have adequate support for its proposed fiscal year 2000 staffing level of 9,383 and for its proposed budget request of \$502 million<sup>19</sup> for the management and administration account, which includes salaries and related expenses.

HUD's estimated staffing level for fiscal year 2000 has fluctuated since 1997. The Department's 2020 Management Reform Plan initially established a goal of reducing staffing from about 10,500 to 7,500 full-time staff by 2000, a goal subsequently extended to 2002. In our March 1998 report on HUD's Reform Plan, we concluded that although HUD used historical workload data to allocate predetermined target numbers of staff among different locations or functions, it did not systematically analyze how many staff it needed to carry out individual responsibilities or functions.<sup>20</sup> Our conclusion was consistent with that of HUD's OIG, which reported that the Department failed to perform a cost-benefit analysis of its 2020 Management Reform Plan and adopted a target of 7,500 staff without analyzing the Department's mission and projected workload. HUD later revised the staffing level from 7,500 to approximately 9,000<sup>21</sup> and submitted a cost analysis to the Congress, pursuant to the Conference Report on HUD's fiscal year 1998 appropriations act.

<sup>18</sup>HUD's 2020 Management Reform Plan created two positions, Community Builder and Public Trust Officer, to reflect the Department's mission of empowering people and communities and protecting the public trust.

<sup>19</sup>For fiscal year 2000, the requested appropriation is \$1.031 billion, which consists of \$502 million in budget authority and authority to transfer \$518 million from various FHA accounts; \$9 million from GNMA; \$1 million in administrative funds from CDBG (section 108); \$150,000 from title VI Indian Federal Guarantees Program Account; and \$200,000 from Indian Housing Loan Guarantee Fund Program Account.

<sup>20</sup>HUD Management: Information on HUD's 2020 Management Reform Plan (GAO/RCED-98-86, Mar. 20 1998).

<sup>21</sup>HUD reported that it would maintain this staffing level and achieve the staffing of 7,500 by 2002 only if (1) the Congress enacts legislation to consolidate HUD's programs and (2) a substantial reduction occurs in the number of troubled multifamily assisted properties and troubled public housing authorities.

According to HUD's OIG, the Department's cost analysis does not relate the benefits attributable to community builders to the cost of maintaining a community builder's workforce. HUD describes the position of community builder as (1) the initial point of contact for all elected officials and (2) the critical link for HUD's customers to access the full range of HUD's programs and services. In addition, community builders are to provide a wide variety of services to communities and customers in their jurisdiction but should have no role in the preparation, review, or approval of applications for HUD assistance. Furthermore, they are to perform their work in collaboration with Public Trust Officers, who ensure that federal funds are used appropriately and in compliance with laws and regulations. On June 19, 1999, HUD was staffed by 9,157 full-time employees, including 784 community builders—376 internal HUD-career employees and 408 external hires. HUD plans to hire 36 additional external community builders by the end of fiscal year 1999. However, without performing an analysis of the program that compares costs with benefits, HUD does not know if the program's benefits are worth the costs of hiring and training community builders, particularly those hired from outside of HUD, who will serve only 2- to 4-year terms.

To improve its resource estimation process, HUD, with the National Academy of Public Administration, has developed a proposed methodology for resource management that will allow the Department to identify and justify its staffing requirements. HUD is pilot-testing the methodology at two field offices. After these tests are completed, HUD will consider implementing the methodology throughout the Department for determining and allocating resources.

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## Conclusions

While we believe that HUD's justification of its fiscal year 2000 budget request is generally clear, accurate, and improved in some ways over last year's, we have a number of concerns about the request. For example, until HUD resolves issues of contractor monitoring, the Department will not be ready to implement and use in fiscal year 2000 all of the proposed funding for the largest of its proposed new programs—Contract Administration. Furthermore, the total amount requested for this program could be reduced, given changes made by the Department to exclude certain properties. Regarding the other newly proposed or expanded programs, the Department's capacity to take on such work will be uncertain until its new resource management methodology is implemented. In addition, the potential exists for HUD to identify unobligated balances in some programs that, with congressional direction,

could be available for other uses. However, fulfilling this potential will require HUD to further scrutinize funding status and analyze needs to determine whether unobligated balances could be used for alternate purposes. This is particularly true in programs for which HUD is requesting increases in funding but that also have had substantial unobligated balances in recent years and in cases of excessive balances identified for grantees in HUD's CDBG program. Identifying excessive program balances in the CDBG program would enable HUD to more efficiently enforce its own regulation and prevent the accumulation of unexpended balances. Moreover, because HUD's Office of Budget relies on unverified information from the program offices to prepare its reports to the Congress and to the Treasury Department, the balances in those reports could be subject to error. Finally, HUD may have several opportunities to improve the timeliness of its disaster assistance obligations by employing some of the management techniques FEMA uses to obligate funds.

## Recommendations

In its fiscal year 1998 audit of HUD's financial statements, HUD's OIG found that the Department needed to improve its processes for reviewing obligation balances. To address that finding and to improve HUD's management of unexpended balances, we recommend that the Secretary of Housing and Urban Development direct the Department's Chief Financial Officer and its Office of Budget to work with HUD's program offices to independently verify unexpended balances that are certified by the program offices.

We also recommend that the Secretary direct the Office of Budget to work with HUD's program offices to

- identify programs with a history of unobligated and undisbursed obligated balances, as well as grantees holding excessive balances, so that action can be taken to ensure the expeditious obligation and expenditure of these funds and
- identify and alleviate barriers to the timely obligation of funds in HUD's programs.

Finally, we recommend that the Secretary

- provide, prior to letting new contracts for administering multifamily housing assistance contracts, written assurances to the Senate and House Committees on Appropriations that HUD has (1) established firm monitoring procedures for overseeing the performance of contract

administrators and the condition of the properties they administer through the Contract Administration Program and (2) amended its budget request to reflect the reduction in the scope of the Contract Administration Program resulting from the exclusion of certain properties from the program and

- adopt, where practicable, the practices used by FEMA for obligating emergency funding for disaster relief—provided HUD’s authority to fund its disaster assistance program does not change.

## Agency Comments

We provided copies of a draft of this report to HUD for its review and comment. While agreeing with much of the report, HUD identified several areas that it believed should be clarified or better described.

First, we said in our draft report that HUD was requesting funding for 19 new programs and initiatives. HUD believes, instead, that it has only three new programs proposed in its fiscal year 2000 budget request. We have revised our report to more clearly state that by new programs and initiatives we mean programs that were either not funded by the Congress in fiscal year 1999 or were significantly expanded for fiscal year 2000 and which will result in substantial increases in HUD’s administrative effort. As a case in point, HUD refers to the Contract Administration Program as a program that we characterize as new but that has been authorized since 1937 and currently is in operation. We believe that this program illustrates our point that the substantial increase in this program’s scope will necessitate corresponding increases in planning and administration that will be required of HUD staff to implement and monitor this effort. HUD proposes to expand the program from covering 20 percent of the project-based inventory, or about 4,500 properties, to covering 100 percent, or nearly 25,000 properties.

Second, HUD disagreed with our conclusion that unexpended balance reports could be subject to error. HUD said that the unexpended balance data come from financial systems that are subject to Office of Inspector General audit via the annual financial statement audit, which, in turn, received an unqualified audit opinion from the Inspector General in March 1999. While the information contained in HUD’s unexpended balance reports originates from HUD’s various accounting systems, not all of these systems are subject to accuracy checks and verification, even by the Inspector General. During our review, HUD officials in the Office of the Chief Financial Officer told us that information provided by program offices for these accounting systems is accepted without being

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independently verified. Moreover, as part of its audit of HUD's fiscal year 1998 financial statements, HUD's Office of Inspector General audited unexpended balances. As part of this audit, the Inspector General reported an internal control weakness related to HUD's need to improve its processes for reviewing obligation balances. In this finding, the Inspector General reported instances in which program information was incomplete or inaccurate. Thus, even with HUD's unqualified audit opinion, we continue to believe, consistent with the Inspector General's finding, that balances reported could be subject to error because that information has not been verified.

Finally, HUD provided information on the roles and responsibilities of community builders and on the conceptual foundation of the Community Builder Program, which it contended should allay our concerns over the relative benefits and costs of this program. We continue to believe that a quantitative analysis of the costs and benefits of the Community Builder Program would provide a valuable supplement to the extensive qualitative information that HUD has already prepared to justify the program.

Although HUD did not comment on our recommendations, it did provide a number of additional comments. The complete text of HUD's comments and our responses are included in appendix V.

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## Scope and Methodology

To answer your questions about HUD's fiscal year 2000 budget request, we reviewed the Department's Congressional Justifications for 2000 Estimates. We also interviewed appropriate officials in HUD's Office of the Chief Financial Officer, Budget, Public and Indian Housing, Housing, and Community Planning and Development to obtain more information on planned uses for the funding requested. When available, we reviewed additional information, such as year-end reports of unexpended balances and other analyses produced by HUD. We performed our work from February through August 1999 in accordance with generally accepted government auditing standards. For a more detailed explanation of our objectives, scope, and methodology, see appendix I.

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As arranged with your offices, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days after the date of this letter. At that time, we will send copies of this report to appropriate congressional committees; the Honorable Andrew M. Cuomo, Secretary of Housing and Urban Development; the Honorable Jacob Lew,

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Director, Office of Management and Budget; and other interested parties.  
We will also make copies available upon request.

If you or your staff have any questions about this report, please contact me  
at (202) 512-7631. Key contributors to this report are listed in appendix VI.

A handwritten signature in black ink, reading "Judy A. England-Joseph". The signature is written in a cursive, flowing style.

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

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**Abbreviations**

CDBG	Community Development Block Grant
FEMA	Federal Emergency Management Agency
FHA	Federal Housing Administration
HUD	Department of Housing and Urban Development
OIG	Office of the Inspector General
VA	Veterans Administration

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# Objectives, Scope, and Methodology

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The objectives of our review of the Department of Housing and Urban Development's (HUD) fiscal year 2000 budget request were to determine whether (1) HUD has the capacity to implement, and adequate justification to support, the new or significantly expanded programs and initiatives included in its budget request, (2) the potential exists for HUD to use available unexpended balances in some programs to reduce its need for new funding in other programs, and (3) HUD has adequately justified its use of or requests for funds in the following five areas: disaster assistance, salaries and expenses, Schedule C and non-career Senior Executive Service positions, rural housing and economic development, and international housing initiatives

To determine whether HUD has the capacity to implement its new or expanded programs, we relied on work that we completed earlier this year and reported in our March 3, 1999, testimony. To update this work, we obtained information from HUD about its staffing of key field offices and centers. To determine whether HUD's justification for implementing key programs was adequate, we selected the largest proposed program, Contract Administration, to review in depth. For this program, we obtained and reviewed HUD's documentation for the program's need and its budget request. We also interviewed HUD budget and program officials and reviewed pertinent documents they provided. Finally, we obtained and reviewed reports by HUD's Inspector General, as well as GAO reports and other studies related to contracting, and discussed these programs with outside interest groups.

To determine whether HUD had unexpended balances available that it could use to reduce its request for new budget authority, we reviewed all HUD discretionary programs with reported year-end unobligated balances for fiscal year 1998. We also compared unexpended balance reports for fiscal years 1996 and 1997 to identify whether growth was occurring over the 3-year period. We compared these actual balances with the estimated balances in the Budget Appendix for the President's fiscal year 2000 budget request to determine whether HUD was estimating continued growth in fiscal years 1999 and 2000. We reviewed HUD's congressional budget justification documentation to determine the extent to which HUD is requesting increases in funding for fiscal year 2000. With this information about which programs had significant, long-term, or increasing unobligated balances, we asked HUD to discuss the Department's expectations for the future use of these balances and to justify carrying them over to succeeding years.

To understand the reasons for and implications of HUD's unexpended balances, we selected three programs to review—the Community Development Block Grant (CDBG), CDBG Disaster Assistance, and Drug Elimination programs—because of the growth in their unexpended balances over the last 3 years and HUD's continued requests for full program funding. Combined, these programs accounted for about 7 percent of HUD's unexpended balances as of September 30, 1998. We also reviewed audit reports prepared by HUD's Office of Inspector General on HUD's annual financial statements, HUD's fiscal year 1999 annual operating plan, and prior GAO reports on unexpended balances for HUD's Section 8 program. In addition, we discussed unexpended balances with representatives from HUD's Office of Budget and from the three programs we reviewed. We also discussed disaster assistance funding issues with several staff from the Federal Emergency Management Agency. Finally, we obtained data on unexpended balances from HUD's general ledger, which has as its source several data systems maintained by various HUD program offices. These systems had been reviewed by HUD's Office of Inspector General as part of its audit of HUD's fiscal year 1998 financial statements. Therefore, to determine the reliability of HUD's data, we reviewed the financial statement report and discussed the audit work performed with the Inspector General's staff. We determined that the data were sufficiently reliable for the purposes of this report.

To determine whether HUD supported its funding requests in the areas of salaries and expenses, disaster assistance, Schedule C and non-career Senior Executive Service employees, the Rural Housing and Economic Development program, and the International Affairs Office, we interviewed HUD budget and program officials as well as officials in HUD's Office of Personnel Management, HUD's Office of Inspector General, and the Office of Management and Budget. We also obtained and reviewed reports from HUD's Inspector General and other program documentation.

We conducted our work from February 1999 through August 1999 in accordance with generally accepted government auditing standards.

# New Programs and Initiatives<sup>a</sup> in HUD's Fiscal Year 2000 Budget Request

**Table II.1: New and Expanded Programs and Budget Authority**

Dollars in millions

<b>Programs and Initiatives</b>	<b>Notes</b>	<b>Budget authority<sup>b,c</sup></b>
<b>Community Planning and Development</b>		
Metro Job Links	Set-aside <sup>d</sup>	\$(10)
Homeownership Zones	Set-aside	[25]
EZ/EC Targeted Technical Assistance	Set-aside	[10]
Round II Planning and Implementation Grants	Set-aside	[10]
Citizens Volunteer Housing Corps	Set-aside	[5]
Regional Connections		50
Regional Empowerment Zone Initiative		50
America's Private Investment Companies Credit Subsidy		37
America's Private Investment Companies Guarantee Commitment Limit		{1,000}
Homeless Multi-Agency Support Services Demonstration		5
Incremental Vouchers for the Homeless	18,000 vouchers	[104]
Regional Affordable Housing Initiative	Set-aside <sup>d</sup>	[25]
Redevelopment of Abandoned Buildings		50
<b>Public and Indian Housing</b>		
Incremental Rental Assistance	42,000 vouchers	243
Youth Anti-Drug Diversion Program (Drug Elimination Grant Program)		[100]
<b>Housing Programs</b>		
Contract Administration		209
Elderly Capital Grants/Assisted Living	Set-aside	[100]
Service Coordinators	Set-aside	[50]
<b>Mandatory Program</b>		
LIHTC Vouchers for the Elderly	15,000 vouchers	87
<b>Total new budget authority for line items not in brackets or braces</b>		<b>\$731</b>

(Table notes on next page)

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**Appendix II**  
**New Programs and Initiatives<sup>a</sup> in HUD's**  
**Fiscal Year 2000 Budget Request**

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<sup>a</sup>For this table, we defined new programs and initiatives as any that the Congress did not fund in fiscal year 1999; however, some of programs or initiatives may have received funding in prior years. HUD believes that only three of the programs are new—Redevelopment of Abandoned Buildings, America's Private Investment Companies and Regional Connections. According to HUD, the other initiatives and programs we identified represent increases or expansion within existing programs.

<sup>b</sup>Brackets indicate that a program is funded within another program in HUD's budget request.

<sup>c</sup>Braces indicate that the amount is a guarantee or insurance limit and not a request for new budget authority.

<sup>d</sup>HUD has asked the Congress to redirect funds from these programs to housing programs that HUD believes have proved effective. HUD proposes using \$10 million slated for Metro Job Links to fund Habitat for Humanity/Self-Help Homeownership Program within CDBG. In addition, HUD proposes redirecting \$25 million earmarked for Regional Affordable Housing Initiative to the HOME program. Of the total funds available, \$7.5 million would be set aside to fund Capacity Building for Habitat for Humanity, and the remaining \$17.5 million would be provided as regular HOME formula funding.

Source: GAO's analysis of HUD's fiscal year 2000 budget documents.

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## Descriptions of New Programs and Initiatives

### **Community Planning and Development**

#### Metro Job Links (see note d above)

HUD is requesting \$10 million for Metro Job Links, an initiative that would create or strengthen a welfare-to-work infrastructure that is place-based and regionally oriented to help connect persons needing employment to places where jobs are located. Metro Job Links will serve families living in housing developments operated by community development corporations or other housing for persons with low incomes.

#### Homeownership Zones

HUD is requesting \$25 million to fund five to eight homeownership zones that will enable cities to undertake large-scale, single-family developments in inner city neighborhoods. HUD maintains that the \$25 million in grant funds will create an estimated 1,500 new homeowners.

#### Empowerment Zones/Enterprise Communities Targeted Technical Assistance

HUD is proposing to set aside \$10 million for technical assistance and other support to establish partnerships between nondesignated Empowerment

Zones/Enterprise Communities and to assist the communities in implementing their strategic plans.

#### Round II Planning/Implementation Grants

HUD is proposing to set aside \$10 million for meritorious communities that applied for designation in HUD's second competition as empowerment zones but were not chosen. The grant funds will be used to assist the meritorious communities in implementing portions of their strategic plans.

#### Citizens Volunteer Housing Corps

HUD is requesting \$5 million to mobilize a corps of citizens to help reclaim and rebuild abandoned and dilapidated housing in 80 cities across the country. According to HUD, this initiative will complement and be coordinated with ongoing AmeriCorps programs and other volunteer initiatives.

#### Regional Connections

HUD is requesting \$50 million for the Regional Connections program, which will provide competitive funding to states and partnerships of local governments (where at least one member is a CDBG entitlement community) to help them develop and implement new, locally driven strategies that address regional economic and community development needs across jurisdictions. Regional Connections will complement existing federal programs that promote local and regional partnership, and influence growth and investment patterns.

#### Regional Empowerment Zone Initiative

HUD is requesting \$50 million for a new Regional Empowerment Zone Initiative to help Empowerment Zones/Enterprise Communities link their economic development strategies to broader metropolitan regional economies. HUD plans to award competitive grants to help current and future Empowerment Zones/Enterprise Communities finance regional strategies to expand their revitalization efforts, with an emphasis on increasing the level of youth employment.

America's Private Investment Companies

HUD is requesting \$37 million to subsidize and secure \$1 billion in privately issued federally guaranteed loans to go with \$500 million in private equity commitments to create for-profit venture capital funds known as America's Private Investment Companies. This new program will significantly expand private equity capital for the creation or relocation of large-scale businesses in distressed central cities and rural areas. HUD maintains that the \$37 million federal credit subsidy will leverage an estimated \$1 billion in private capital, thus creating thousands of jobs through direct job stimulus and spillovers. HUD and the Small Business Administration will jointly administer this program.

Homeless Multi-Agency Support Services Demonstration

HUD is requesting \$5 million for a pilot project that will bring together major federal agencies and departments that have programs to serve the homeless. The purpose of this demonstration is to test new ways to better link and integrate these programs and the services they provide to improve the efficiency of assisting the homeless and expanding self-sufficiency results.

Incremental Vouchers for the Homeless

HUD is requesting \$104 million to provide 18,000 new Section 8 vouchers for homeless individuals and families. These vouchers will be used to assist homeless persons who have become sufficiently independent to secure permanent housing.

Regional Affordable Housing Initiative (see note d above)

HUD is requesting \$25 million for the Regional Affordable Housing Initiative, a competitive pilot program that will address critical housing needs in targeted metropolitan regions. This program seeks to increase the availability of affordable housing in areas with high job growth and inadequate supplies of affordable housing for low-wage workers, as well as to promote the creation and implementation of regional affordable housing strategies.

### Redevelopment of Abandoned Buildings

HUD is requesting \$50 million for the Redevelopment of Abandoned Buildings Initiative, which will provide local governments with competitive grants to support the demolition of blighted, abandoned buildings as part of a holistic plan to redevelop properties for commercial use or for single-family and multifamily housing. This 3-year program will require significant private-sector and local government commitment and provide an average of \$30,000 per building to pay for demolition, deconstruction, debris removal, environmental remediation of soils, and site preparation.

### **Public and Indian Housing**

#### Incremental Rental Assistance

HUD is requesting \$243 million to provide 42,000 new certificates and vouchers for Section 8 incremental rental assistance. This assistance will be used for various Section 8 activities, including the Family Unification Program, litigation-related needs, and portability requirements.

#### Youth Anti-Drug Diversion Program

HUD is requesting \$100 million for the Youth Anti-Drug Diversion Program. This program will emphasize fighting drug-related activity by youths in public housing and provide mentoring, after-school, and family-strengthening activities.

### **Housing Programs**

#### Contract Administration

HUD is requesting \$209 million to procure contract administrators who will oversee HUD's project-based program. These non-HUD personnel will assume many duties currently performed by HUD employees, such as conducting annual physical inspections, reviewing projects' financial statements, conducting management and occupancy reviews, and reviewing management agents among other things.



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Elderly Capital Grants/Assisted Living

HUD is requesting \$100 million for a new initiative that will provide competitive grants to existing HUD subsidized (Section 202) projects for the elderly that convert some or all units to assisted living facilities.

Service Coordinators

HUD is requesting \$50 million for service coordinators who will link elderly or disabled residents of eligible housing with supportive services provided by community agencies. The purpose of this program is to help elderly or disabled persons live independently in their own homes. Service coordinators may provide case management, serve as advocates or mediators, coordinate group programs, or train housing management staff. Program funds will be used to pay the salaries and fringe benefits of service coordinators and related administrative costs.

**Mandatory Program**

Low Income Housing Tax Credit Vouchers for the Elderly

HUD is proposing \$87 million in mandatory spending for 15,000 new vouchers for the elderly. The vouchers will be targeted to elderly persons with very low incomes who move into projects constructed using Low-Income Housing Tax Credits.

# Actual Versus Estimated Unobligated Balances for HUD's Discretionary Programs

Dollars in millions

	9/30/96 (actual)	9/30/97 (actual)	9/30/98 (actual)	9/30/99 (estimate)	9/30/00 (estimate)
<b>Community Planning and Development</b>					
Community Development Block Grant	\$726	\$777	\$832	\$0	\$0
Youthbuild	2.6	.1	.4	0	0
Homeless Assistance Grants	888	955	1,019	0	0
Housing Opportunities for Persons with AIDS	<sup>a</sup>	36	40	0	0
Emergency Shelter Grants	.3	.4	1	0	0
Supplemental Assistance for Facilities to Assist the Homeless	1	1	1	0	0
Supportive Housing Program	31	19	17	0	0
Section 8 Moderate Rehabilitation Single Room Occupancy	106	86	85	0	0
Shelter Plus Care	16	10	6	0	0
HOME Investment Partnership Grants	182	210	236	0	0
Brownfields Redevelopment	<sup>a</sup>	<sup>a</sup>	25	0	0
Urban Empowerment Zones	<sup>a</sup>	<sup>a</sup>	4	0	0
Capacity Building for Community Development and Affordable Housing	0	30	8	0	0
<b>Public and Indian Housing</b>					
Annual Contributions Account	6,399	2,291	1,103	79	0
Disaster Assistance	0	0	3	<sup>a</sup>	<sup>a</sup>
Public Housing Capital Fund	0	0	1,611	1	1
Prevention of Resident Displacement	0	3,486	72	<sup>a</sup>	<sup>a</sup>
PIH Homeownership	38	11	11	11	11
Drug Elimination Grants for Low-Income Housing	68	281	346	0	0
Revitalization of Severely Distressed Public Housing (HOPE VI)	539	698	630	600	600
Indian Housing Loan Guarantee Fund Program Account	.1	0	4	0	0
Rental Assistance Program	467	463	455	<sup>a</sup>	<sup>a</sup>

(continued)

**Appendix III  
Actual Versus Estimated Unobligated  
Balances for HUD's Discretionary Programs**

Dollars in millions					
	<b>9/30/96 (actual)</b>	<b>9/30/97 (actual)</b>	<b>9/30/98 (actual)</b>	<b>9/30/99 (estimate)</b>	<b>9/30/00 (estimate)</b>
Native American Indian Housing Block Grant	a	a	136	0	0
Housing Certificate Fund	a	a	3,405	986	0
Rental Housing Assistance	1	1	1	1	1
<b>Housing Programs</b>					
Section 235 Restructuring	16	16	16	a	a
Housing for Special Populations	a	a	2,864	2,231	1,543
Capital Grants Preservation Account	a	a	10	a	a
Rent Supplement	519	502	496	a	a
Section 235 Refinancing	7	7	7	a	a
Nonprofit Sponsor Assistance Liquidating Account	6	6	6	0	0
Flexible Subsidy Fund	142	179	235	276	292
Nehemiah Housing Opportunity Fund	21	21	1	0	0
FHA General and Special Risk Program Account	590	506	443	338	38
<b>Policy Development and Research</b>					
Research and Technology	2	3	12	0	0
<b>Fair Housing and Equal Opportunity</b>					
Fair Housing Activities	13	8	23	0	0
<b>Total</b>	<b>\$10,781</b>	<b>\$10,603.5</b>	<b>\$14,164.4</b>	<b>\$4,523</b>	<b>\$2,485</b>

<sup>a</sup>Indicates the program was not included in the document reviewed.

Source: HUD's Unexpended Balance Reports for fiscal years 1996, 1997, and 1998 for actual amounts. HUD's fiscal year 2000 budget request documents for estimates.

# Increases in Existing Programs Included in HUD's Fiscal Year 2000 Budget Request

Dollars in millions

Program/Initiative	Budget authority <sup>a</sup>		Increase
	FY 1999 enacted	FY 2000 request	
<b>Community Planning and Development</b>			
Community Development Block Grant	\$4,750	\$4,775	\$25
Youthbuild	[43]	[75]	[32]
Homeless Assistance Grants	975	1,020	45
Housing Opportunities for Persons with AIDS	225	240	15
HOME Investment Partnership Grants	1,600	1,610	10
Brownfields Redevelopment	25	50	25
<b>Public and Indian Housing</b>			
Regional Opportunity Counseling	10	20	10
Public Housing Operating Fund	2,818	3,003	185
Section 8 Renewals/Amendments	9,599	10,640	1,041
Administrative Fee Increase	<sup>b</sup>	<sup>b</sup>	6
<b>Housing Programs</b>			
Housing Counseling Assistance (funded in HOME)	[18]	[20]	[2]
FHA Mutual Mortgage Insurance and Cooperative Management Housing Insurance Funds program account	329	491	162
FHA Mutual Mortgage Insurance and Cooperative Management Housing Insurance Funds program account	{110,000}	{120,000}	{10,000}
<b>Government National Mortgage Association</b>			
Mortgage-Backed Securities Guarantee program account	9	15	6
Mortgage-Backed Securities Guarantee	{150,000}	{200,000}	{50,000}
<b>Policy Development and Research</b>			
Research and Technology	38	40	2
<b>Fair Housing and Equal Opportunity</b>			
Fair Housing Assistance Program	17	20	3
Fair Housing Initiatives Program	23	27	4
<b>Management and Administration</b>			
Salaries and Expenses	535	559	24
<b>Mandatory Programs</b>			
FHA General Insurance and Special Risk Insurance Funds liquidating	46	1,164	1,118
Manufactured Home Inspection and Monitoring	15	16	1
Urban Empowerment Zones	45	150	105
<b>Total increase in new budget authority requested (Total does not include items in brackets or braces.)</b>	<b>\$21,059</b>	<b>\$23,840</b>	<b>\$2,787</b>

(Table notes on next page)

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**Appendix IV  
Increases in Existing Programs Included in  
HUD's Fiscal Year 2000 Budget Request**

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<sup>a</sup>Brackets indicate that a program is either a set-aside under another program or is funded within another program in HUD's budget request. Braces indicate that an amount is a guarantee or insurance limit and not a request for new budget authority.

<sup>b</sup>The administrative fee is paid to public housing authorities that administer the Section 8 tenant-based assisted housing program and is included in the baseline unit cost for the Section 8 tenant-based program. Therefore, the exact amount of the aggregate fee for fiscal years 1999 and 2000 is not known. Differences in authority between fiscal year 1999 and fiscal year 2000 do not agree with total increases because the administrative fee of \$6 million is counted as a requested increase for fiscal year 2000.

Source: GAO's analysis of HUD's fiscal year 2000 budget documents.

# Comments From the Department of Housing and Urban Development

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



U. S. Department of Housing and Urban Development  
Washington, D.C. 20410-0100

OFFICE OF THE CHIEF FINANCIAL OFFICER

**AUG 25 1999**

Mr. Eric Marts  
Assistant Director  
Housing and Community Development Issues  
General Accounting Office  
441 G Street, NW, Room 2R41  
Washington, DC 20548

Dear Mr. Marts:

Thank you for the opportunity to review the General Accounting Office's (GAO) draft report, "HUD's Fiscal Year 2000 Budget Request," before publication. While HUD agrees with many of your comments, there are several areas that we believe should be better described or clarified. In addition, some of the statements, I believe, are incorrect.

In particular, GAO's statement that HUD has included 19 new programs and initiatives in its FY 2000 Budget Request is misleading. There are only three new programs proposed by HUD for FY 2000: America's Private Investment Companies, Regional Connections, and Redevelopment of Abandoned Buildings, all of which are part of the President's Interagency - "New Markets Initiative" (Enclosure 1).

GAO's characterization of third-party contract administration for HUD's project-based contracts as a new program is inaccurate. HUD not only has the authority under Section 8 of the Housing Act of 1937, as amended, to have this work performed by contractors, but currently conducts the administration of nearly 20 percent of its project-based portfolio in this manner. The use of contract administrators will greatly expand the scope of this effort, as envisioned in the HUD 2020 Reforms but is certainly not a new program (Enclosure 2).

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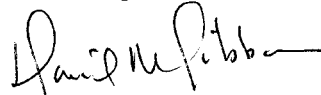
**Appendix V  
Comments From the Department of Housing  
and Urban Development**

GAO's comments that HUD relies on unverified and possibly inaccurate information from program offices to compile its Unexpended (unobligated and obligated) Balances Report to Congress is not correct. The information contained in that report is taken from the Department's official accounting system and are subject to the annual financial statement audit by the Office of Inspector General. As you know, HUD's financial statement received a clean audit opinion in March of 1999 (Enclosure 3).

GAO also states that there is a lack of cost-benefit analysis to support HUD's Community Builders program. I have enclosed several documents that I believe will allay some of GAO's concern over the relative benefits and costs of this program. If you would like to pursue this issue further, I will establish contacts with the appropriate HUD officials (Enclosure 4).

Enclosure 5 contains many additional comments addressing a variety of statements and assumptions included in the draft GAO Report. If you would like to discuss these comments further, please contact my office and I will provide you with whatever additional information you may need.

Sincerely,



David M. Gibbons  
Acting Chief Financial Officer

Enclosures

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

ENCLOSURE 1

New Programs

See comment 1.

HUD has not proposed 19 new programs. The three new programs proposed are: America's Private Investment Companies, Regional Connections, and Redevelopment of Abandoned Buildings. The remaining activities identified by GAO represent increases or expansion or initiatives within existing programs. In many cases, our initiatives only represent refocusing of resources to meet evolving needs within existing programs. Under any enumeration of new programs HUD would not agree that the administration of these activities would require "substantial resources" that somehow might strain the management capacity of the Department. HUD has estimated that the staff involved in administration of these efforts would be less than a quarter of a percent of our total salary and expenses and could be accommodated within existing resources. The vast majority of the funds for these programs goes to grantees or entitlement communities for actual program implementation. They do not go to overhead or staffing.

See comment 2.

See comment 3.

HUD is not aware of any analysis that would support the contention that these activities would overburden the Department. While it is true that HUD 2020 Reforms are a major undertaking and that we are still implementing segments of this reform, we are at the same time improving our performance and are proving that we are able to handle greater program demands.



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

ENCLOSURE 2  
Page 1 of 2

Contract Administration

Page 6

GAO's classification of third party contract administration as a "new program" is misleading. As the GAO notes in its draft report, HUD has had the authority under Section 8 of the Housing Act of 1937, as amended, to contract with public housing agencies to administer contracts for Section 8 housing assistance payments. Specifically, the Congress directs HUD in Section (b) by stating that:

"The Secretary is authorized to enter into annual contributions contracts with public housing agencies pursuant to which such agencies may enter into contracts to make assistance payments to owners of existing dwelling units in accordance with this section. The Secretary shall enter into a separate annual contributions contract with each public housing agency to obligate the authority approved each year, beginning with the authority approved in Appropriations Acts for fiscal year 1988 (other than amendment authority to increase assistance payments being made using authority approved prior to the appropriations Acts for fiscal year 1988), and such annual contributions contracts (other than for annual contributions contracts for section (o)) shall bind the Secretary to make such authority, and any amendments increasing such authority, available to the public housing agency for a specified period. In areas where no public housing agency has been organized or where the Secretary determines that a public housing agency is unable to implement the provisions of this section, the Secretary is authorized to enter into such contracts and to perform the other functions assigned to a public housing agency."

Moreover, currently nearly 20 percent of HUD's project-based Section 8 portfolio rests with third-party contract administrators. The requested funding seeks to expand the Department's third-party contract administration effort to cover

See comment 4.

**Appendix V  
Comments From the Department of Housing  
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ENCLOSURE 2  
Page 2 of 2

most of the remaining portfolio to bring the Department in line with the intent of the above quoted section. This expansion is a continuation of already existing practice rather than a new program.

HUD agrees with GAO's assessment of the two key tasks that impact the Department's ability to implement: (1) establishing and disseminating formal procedures and performance standards to monitor contract administrators, and (2) providing adequate staffing to manage and oversee this effort. However, GAO's statement that, "we do not believe that HUD will have completed these two tasks in time to fully implement the Contract Administration Program in fiscal year 2000" is incorrect.

The Department will implement this effort in fiscal year 2000. To address GAO's key tasks and other implementation items, the Department currently has a team of Headquarters and Field Office staff on full time detail. These HUD staff are working with a contractor experienced in quality control, business process design, systems implementation, organizational design, and business process outsourcing. Together HUD's implementation team and its contractor will develop the needed processes and identify the staffing resources needed to adequately operate the expanded third-party contract administration effort. The Department plans to fully implement this effort during the first quarter of calendar year 2000.

Although the Department will not implement this effort at the start of the fiscal year, Departmental funding requirements dictate a full funding of all annual contributions contracts with contract administrators for an entire year. Consequently, even though the Department will not implement at the start of the fiscal year, all of the requested \$209 million will be needed during fiscal year 2000.

See comment 5.

**Appendix V  
Comments From the Department of Housing  
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ENCLOSURE 3

Unexpended Balances

Pages 3, 8, 9, 12, 13, 17 and 18

GAO's inference that data included in the Department's "Unexpended Balances Report" is provided by program offices is inaccurate. Unexpended balances reported to Treasury, OMB and Congress represent unobligated and obligated (contractual obligations) balances recorded in the Department's accounting systems.

Page 12

The report states, "HUD prepares an Unexpended Balances Report based on data provided by the program offices." GAO infers that CFO is relying on the program offices as the source for the data included in the report. The report is prepared from financial data recorded in the accounting systems—it is not based on data provided by the program offices.

Page 13

The "Aging Report" is a subset of the obligated balances recorded in the accounting systems. It provides program managers with information on projects/grantees that were inactive for 6 months through June 30. The program offices are responsible for monitoring projects/grantees status in accordance with programmatic requirements. Accounting uses the feedback from program offices to de-obligate unneeded funds.

Pages 17 and 18

GAO's conclusion "...because HUD's CFO office relies on unverified information from program offices to compile its report to the Congress, the balances in that report could be subject to error" is misleading. The "Unexpended Balances Report" is compiled from the Department's accounting systems. Program officials respond to the "Aging Report" as part of the annual certification of obligation. Accounting de-obligates the unexpended contractual obligations based on program feedback. The Department's "obligations" (included in the unexpended balances) are subject to the annual financial statement audit. The OIG performs audit procedures to assure that obligations included in the financial statements are fairly stated. The need for the unobligated balances included in the Unexpended Balances Report can be independently verified.

See comment 6.

Now on p. 12.

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

ENCLOSURE 4  
Page 1 of 2

Community Builders

GAO expressed concerns that there was a lack of cost-benefit analysis applied in the development and implementation of the Community Builder program. There is substantial internal and external support for the Community Builder cadre as a special workforce group with the mission of handling customer relations on behalf of the Department's field program operations.

The attached chart titled, "Foundations for the Creation of HUD Community Builders (Customer Relationship Management)" delineates both the external and internal sources of support for the creation of the Community Builder program. These external and internal sources include NAPA and the OIG. Also, the Booz-Allen study provides a workload/cost benefit analysis which affirms the Department's implementation of this management reform.

Although there is not a precise scientific calculation, each program area contributed staff resources to the Community Builder cadre. At the Secretary's direction, they transferred their "front-end" customer service and customer relationship functions to be performed by a specialized workforce, that is, the Community Builder. The actual number of slots transferred was based on rough estimates of resource requirements for the "front-end" functions. The Department's Office of Policy Development and Research further refined these staffing-to-workload calculations in determining the allocation and ultimate placement for Community Builder Fellows. These functions are spelled out in the Community Builder Roles and Responsibilities paper which is also attached.

In accordance with the Government Performance and Results Act, the Department has crafted the fiscal year 2000 Annual Performance Plan (APP) with precise performance measures aligning outcomes/outputs with program dollars and estimated salary and expense requirements to carry out the Department's strategic goals and objectives. The fiscal year 2000 Business and Operating Plan for HUD Headquarters and Field Offices further align the APP goals and objectives with operating targets, as well as prioritize workloads to match existing resources (staff and travel).

The chart is not printed here.

See comment 7.

The paper is not printed here.

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

ENCLOSURE 4  
Page 2 of 2

See comment 8.

Based on the rationale for the creation of the Community Builder program and the Department's strategic management process, HUD recommends that GAO amend its draft report. The amendment should reflect the Department's concerted planning efforts to provide high caliber program planning and customer service delivery which are coordinated by the Community Builder cadre in each of our 81 Field Offices, as well as Headquarters.

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

ENCLOSURE 5  
Page 1 of 5

Additional Comments

Drug Elimination Grants

The Department provided written responses to numerous GAO questions on the increased balances of unobligated funds, as well as verbal reassurances that the issue would be resolved. The delays in awarding Public Housing Drug Elimination Program (PHDEP) grants are expected to be overcome as the program transitions from a competitive grant program to a formula grant program. Fiscal year 1999 is the transition year...the funds are expected to be distributed by formula in late September. Henceforth, it is expected that the grants will be distributed by formula during either the first or second quarter of the fiscal year depending on the timing of the appropriations process, and an assessment by the program office of the use of previously awarded grant funding. GAO has opted to sensationalize their report by dwelling at length in the report on the past experience and issues of PHDEP rather than to devote more attention to the fact that these issues are now passe given the implementation of a formula distribution.

Page 1

The report states, "From fiscal year 1997 to fiscal year 1999, HUD's discretionary budget increased from \$16 billion to \$26 billion." HUD's gross budget authority increased from \$17 billion to \$26 billion from fiscal year 1997 to fiscal year 1999. However, \$6 billion of this increase is attributed to renewing existing contracts.

Page 3

The GAO reports that unobligated balances have increased for the Empowerment Zone (EZ), Community Development Block Grant (CDBG) and Homeless programs. The report should state that the unobligated balance growth reflects in part the expansion of the number of competitive set-asides in the CDBG program which thus require Notice of Funding Availability (NOFA's) and an extensive awards process prior to obligation. HUD is in the second year of using SuperNOFA's which is expected to streamline this process. For the EZ program, the context is that this is legislated as a 10 year program. Funding is not made available to the Empowerment

See comment 9.

See comment 10.

See comment 11.

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Page 2 of 5

See comment 12.

Zone until it submits and has approved all of its required planning documents. The development of this program continues to evolve. HUD is utilizing its Empowerment Zone/Enterprise Communities technical assistance funds to assist the EZs in developing their planning documents, thus accelerating the obligation process.

Page 5

See comment 13.

The report states, "These funds, in combination with unexpended budget authority from prior years, will help to support about \$34 billion in discretionary outlays." Please add the following sentence after this sentence. "The majority of these outlays are used to support existing rental assistance contracts."

Page 8

See comment 14.

The report states, "Unobligated balances that are not needed to meet current requirements in several of HUD's programs may be available to meet other needs." HUD has already identified unobligated balances that may be excess and included them as offsets in our fiscal year 2000 budget request.

Page 10

See comment 15.

The report states, "In our view, without such an analysis of amendment needs of the Rent Supplement and Rental Assistance Programs, HUD lacks sufficient data to determine whether the existing unobligated funding will be needed for these programs or whether some could be made available for other uses." The need to do a contract-by-contract analysis for Rent Supplement and Rental Assistance programs (RAP) is not as critical as for the Section 8 program. For Rent Supplement and RAP, amendment funding was provided in the fiscal year 1983 Supplemental Appropriation Act. On the other hand, Section 8 has no "amendment reserve" and funding must, in most cases, be appropriated anew.

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and Urban Development**

ENCLOSURE 5  
Page 3 of 5

Considering the long-term nature of Rent Supplement and RAP programs, a contract-by-contract review would not provide HUD or the Committees with sufficient information to allow for short-term budget decisions, unless, however, the thought is to rescind the funds and appropriate or re-appropriate them as needed. However, the 1983 Act requires HUD to make payments equal to 100 percent of rent increases and changes in tenant income "on a timely basis".

See comment 16.

The report cites that there are excessive obligated but unexpended balances in HUD's Community Development Block Grant program. HUD's leadership recognizes this issue and is aggressively working with our local partners to reduce this balance and increase the rate of expenditures. This effort is documented by the personal involvement by the Secretary who has in a letter to each grantee identified the issue. Significant follow-up efforts are being made through the field offices, provision of increased technical assistance and substantially increased efforts in the area of monitoring.

See comment 17.

The report characterizes the reason for unobligated balances in the Community Development Block Grant and Homeless Assistance Grant program as "...due to delays in HUD's award process." HUD explained previously that under the CDBG program grantees choose, based on their program year when they will receive their funding and that can and does result in funds being obligated after the end of the fiscal year and usually in the first months of the following fiscal year. HUD has not "delayed" this process. In the case of the Homeless program, HUD also has not "delayed" or missed anyone's deadline. The homeless grants are generally obligated in the first half of the following fiscal year which reflects two facts, first that HUD has a large over-subscription to the grants competition and it does take a significant amount of time to review all the applications, rate the applications and make the awards; second, we have a two-step process where the initial application does not require all of the fine details that are ultimately provided at a later stage if a grantee wins the competition and is awarded funding. The two-step homeless application process is deliberate and it allows the maximum number of jurisdictions to compete knowing that only about half the applications are approved without investing very large amounts of resources. For those grantees who are selected, they are then required to provide in a second stage all of the details that are required before HUD permits the obligation to

See comment 18.



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ENCLOSURE 5  
Page 4 of 5

be made. There are arguments to be made for doing the application process differently but HUD and the grantees believe that the current process maximizes the result even though it is a lengthier process.

See comment 19.

While not disagreeing with the conclusion, HUD does not understand why it is important or necessary to reference that there may be \$400,000 in the Youthbuild grant program which may be available for rescission. As with any program, in the regular course of administering grants there can be grantees who do not ultimately use the grant or balances at the end of a grant program. Relative to a \$75 million program, HUD does not believe that this tiny amount is an issue or is an appropriate highlight.

Page 11

See comment 20.

HUD disagrees with the inclusion of the Public Housing Operating Fund as a program with "historical unobligated balances." This program typically expends 99-100 percent of appropriated funds each year. Also, the \$41 million carried over from fiscal year 1998 is statistically insignificant in a \$2.8 billion appropriation. Finally, HUD explained to GAO staff that 95 percent of the \$41 million was due to an accounting error in a single Field Office.

Pages 14 and 15

See comment 21.

Because HUD awards grants for activities not awarded under FEMA, HUD has until now been required to wait until FEMA prepares the "unmet needs" for HUD to evaluate. It is appropriate that the report discusses the improved streamlined procedure which will significantly reduce the time that it takes for HUD to obligated disaster funds but the report does not provide a balanced context or reference point when it compares unobligated amounts in 1996 and 1998 on page 15. The fact is that \$500 million was appropriated for CDBG disaster assistance in 1997 with \$250 million available in 1997 and \$250 million available in 1998 and there was a subsequent additional appropriation of \$130 million in fiscal year 1998. Thus, there were very significant resources first available in 1998 totaling \$380 million which compares to only \$50 million appropriated in 1996. In addition, a careful analysis of the recent operation of the HUD disaster

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See comment 22.

assistance program will underscore the mismatch between the large amounts of disaster funding requested from HUD by States versus the available funds. To ensure that the limited funds are awarded to the most needy, very substantial needs analysis is required.

Page 22

See comment 1.

HUD also disagrees with the inclusion of "Incremental Rental Assistance" as a "new program." The Department would not renew 2 million units unless "incremental rental assistance" had previously been funded. HUD recommends deletion of this program from the table. Further, the Department does not consider the Youth Anti-Drug Diversion Program as a new program; it is merely a proposed set-aside in the PHDEP in order to allow the Department to provide an enhanced focus for the use of PHDEP funds on activities that are already eligible in the existing program.

Now p. 26.

## GAO's Comments

1. In response to HUD's comment, we revised the report to more clearly state that by new programs and initiatives, we mean any that the Congress did not fund in fiscal year 1999 or that would be significantly expanded in fiscal year 2000. However, some of these programs and initiatives may have received funding in prior years.

2. We continue to believe that new initiatives or programs that were not funded last year or have gone through a period of no funding will require substantial resources to plan, implement, restart, and manage. HUD's estimate of resources needed to administer these programs—one-quarter of 1 percent of its salaries and expense budget, or approximately 23 staff persons—seems to be an unrealistically low figure to initiate the volume of new or expanded work proposed in the Department's budget request. In the Contract Administration Program, for example, HUD has assigned 19 staff—some full-time and some part-time—from several headquarters and field offices to plan and prepare for program implementation. Some of these staff will serve full-time once the program is under way. Adequate administration of new or expanded programs is important to the success of those programs; however, without overall increases in HUD's staffing, administering additional programs will strain HUD's ability to properly monitor its current programs, an issue that we and HUD's Office of Inspector General (OIG) have reported on in the past.

3. Our prior work on HUD's management reforms shows that HUD's efforts to transfer staff to new positions and locations and train them adequately are not yet complete. Moreover, we asked for evidence of staffing analysis, but HUD cannot provide this information until completing its staffing pilot. For these reasons, we remain concerned about HUD's ability to initiate and properly administer a significant volume of new workload.

4. Although HUD has had the authority to contract out housing assistance payments to third-party contractors and has contracted out over 20 percent of the properties to third-party contractors in the past, this effort was not funded in fiscal year 1999 as a separate item, as is proposed in this year's budget request. We believe that this program illustrates our point that the substantial increase in scope will necessitate corresponding increases in planning and administration that will be required of HUD staff to implement and monitor this effort. HUD proposes to expand the program from covering 20 percent of the project-based inventory, or about 4,500 properties, to covering 100 percent, or nearly 25,000 properties—a fivefold increase in scope.

5. We continue to believe that effective implementation of the Contract Administration Program is in jeopardy. HUD states that it still has not developed the monitoring procedures nor identified the staffing needed to adequately implement this program and prevent oversight problems reported on by HUD's OIG in the past. According to program officials, HUD currently plans to have the draft of these procedures completed by September 1999. The need for these critical procedures was raised by HUD's OIG in fiscal year 1998. Without this procedural guidance and adequate staffing, the benefits of contracting out for the administration of housing assistance payments, which are outlined in HUD's cost-benefit analyses, will not be realized. Furthermore, HUD began this effort 2 years ago, and it was originally scheduled for implementation this year. However, as a result of input from HUD's OIG as well as the Office of Management and Budget designed to improve the program, HUD has continued to delay the implementation of this effort. Because HUD is still in the process of developing its monitoring procedures, has not identified the staff needed to operate the program, and now expects to exclude some properties from the program as well as to delay program implementation until the second quarter of calendar year 2000, we question HUD's ability to fully implement the Contract Administration Program in fiscal year 2000 as well as the need for the full amount of its budget request for this program.

6. HUD disagrees with our conclusion that unexpended balance reports could be subject to error. HUD said that the unexpended balance data come from financial systems that are subject to OIG audit via the annual financial statement audit, which, in turn, received an unqualified audit opinion from the Inspector General in March 1999. While the information contained in HUD's unexpended balance reports originates from HUD's various accounting systems, not all of these systems are subject to accuracy checks and verification, even by the Inspector General. During our review, HUD officials in the Office of the Chief Financial Officer told us that information provided by program offices for these accounting systems is accepted without being independently verified. Moreover, as part of its audit of HUD's fiscal year 1998 financial statements, HUD's OIG audited unexpended balances. As part of this audit, the Inspector General reported an internal control weakness related to HUD's need to improve its processes for reviewing obligation balances. In this finding, the Inspector General reported instances in which program information was incomplete or inaccurate. Thus, even with HUD's unqualified audit opinion, we continue to believe, consistent with the Inspector General's finding, that balances reported could be subject to error because that information has not been verified.

7. HUD refers a Booz-Allen & Hamilton, Inc., study on the Department's implementation of its 2020 reform plan; however, HUD did not provide evidence from the study to show that it has compared the costs of this program with its benefits. Our review of a Booz-Allen study on HUD's 2020 Implementation Review (dated March 25, 1998) shows workload and staffing analysis for the Department as a whole, but the study does not provide a detailed cost-benefit analysis of the Community Builder program.

8. Our report does not question the Department's concerted planning efforts to provide high-caliber program planning and customer service delivery, only the cost of the program relative to its benefits.

9. We made appropriate changes to our report to reflect this comment.

10. We made appropriate changes to our report to reflect this comment.

11. We made appropriate changes to our report to reflect this comment.

12. We made appropriate changes to our report to reflect this comment.

13. We made appropriate changes to our report to reflect this comment.

14. Although HUD may have identified some unobligated balances that were excess and included them as offsets in the fiscal year 2000 budget estimate, we believe that further analysis could show that additional offsets are possible. We believe that additional analysis has potential, especially because HUD's fiscal year estimates of \$5 billion in unobligated balances are significantly lower than the \$15 billion in unobligated balances that HUD reported at the end of fiscal year 1998.

15. We continue to believe that a contract-by-contract analysis for the Rent Supplement and Rental Assistance programs, which together represent nearly \$1 billion in unobligated funding, warrants a contract-by-contract analysis to determine the programs' true future needs. Analysis of the project-based and tenant-based Section 8 programs, although larger programs, revealed significant budget authority that was not needed to meet program requirements, most of which the Congress rescinded and reappropriated for other uses, including meeting the annual contract renewal needs of assisted housing.

16. We made appropriate changes to our report to reflect this comment.

17. We agree that the difference between the Community Development Block Grant grantees' program years and the federal fiscal year can affect timely obligations of funds. However, according to HUD officials, it is not the only reason block grant funds are not being obligated in a timely manner. Moreover, HUD's comment here is not consistent with other comments in this attachment where the Department states, ". . . unobligated balance growth reflects in part the expansion of the number of competitive set-asides in the CDBG program which thus require Notices of Funding Availability and an extensive awards process prior to obligation."

18. We made appropriate changes to our report to reflect this comment.

19. We believe that even relatively small amounts of unobligated funding should be scrutinized for whether they continue to be needed. By highlighting unneeded amounts in all programs, HUD would be in a better position to suggest to the Congress how funds could be moved from one program area to another to best address the most urgent needs. Therefore, we continue to discuss this point in our report.

20. We made appropriate changes to our report to reflect this comment.

21. We made appropriate changes to our report to reflect this comment.

22. We made appropriate changes to our report to reflect this comment.

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# GAO Contacts and Staff Acknowledgments

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## GAO Contacts

Eric Marts, (202) 512-6771

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## Acknowledgments

Johnnie Barnes, Diane Brooks, Mike Curro, Sherrill Dunbar, Christine Fishkin, Rick Hale, Pat Moore, and Bill Sparling made key contributions to this report.

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