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HUD MANAGEMENT

Information on HUD's 2020 Management Reform Plan



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

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The Honorable Edolphus Towns
Ranking Minority Member
Subcommittee on Human Resources
Committee on Government Reform
and Oversight
House of Representatives

The Honorable Elijah Cummings
Ranking Minority Member
Subcommittee on Civil Service
Committee on Government Reform
and Oversight
House of Representatives

On June 26, 1997, the Department of Housing and Urban Development (HUD) announced its "HUD 2020 Management Reform Plan," a sweeping set of proposals intended to, among other things, address identified management weaknesses and continue downsizing the Department from about 10,500 staff to about 7,500 staff by the year 2000, subsequently extended to 2002. The plan outlined a number of organizational changes, including the consolidation of similar functions within and across the agency's main program areas, as well as staff reductions and target staff levels for each of the areas. The plan also included a "buyout" and other procedures to achieve the target staff levels.

In response to your September 3, 1997, request, we reviewed aspects of the management reform proposals outlined in the 2020 plan. As requested, we focused on the following questions:

- What studies and analyses did HUD perform to determine the efficiencies derived from the centralization and consolidation of the Federal Housing Administration (FHA) and other major programs and activities?
- What studies and workload analyses were conducted to show that the agency will be able to carry out its responsibilities with 7,500 employees?
- How does HUD plan to manage the personnel changes that will result from the reforms and downsizing?

The information in this report is based on a review of documents provided by HUD and on interviews with key officials involved in the 2020 planning

process. We did not independently verify the accuracy of data in the documents that HUD provided.

Results in Brief

Reports covering each of HUD's major program areas and functions, prepared by teams of HUD employees in the spring of 1997, are the principal documents supporting the 2020 plan. The reports identify a number of prospective efficiencies from consolidating and centralizing certain processes. In addition to allowing the agency to operate with a reduced workforce, HUD intends the changes to reduce the time and/or paperwork required for various processes. The efficiencies cited are generally not based upon detailed empirical analyses or studies, but rather on a variety of information, including some workload data, limited results from a pilot project, identified "best practices" in HUD field offices, benchmarks from other organizations, and managers' and staff's experiences and judgment. The plan is directed in part towards correcting the management deficiencies that we and others have identified. Because the reforms are not yet complete and some of the plan's approaches are untested, the extent to which they will result in the intended benefits is unknown.

According to HUD's Deputy Secretary, the process changes proposed by the 2020 plan, along with partnerships with states and local entities and the use of contractors, will allow the agency to operate with 7,500 staff—a staffing target level established prior to the plan. However, proposed staffing levels for each program area are generally not based upon systematic workload analyses to determine needs. While the reform teams were instructed by the Deputy Secretary to determine staffing requirements based upon workload, they were also instructed to work within targeted staffing levels and the Department's staffing constraints. The reform teams relied on a variety of factors, including some workload data, to show whether responsibilities could be carried out within targeted staffing levels. Because the downsizing target of 7,500 staff is not based upon a systematic assessment of needs and because proposed legislation could affect those needs, it is uncertain that HUD will have the capacity to carry out its responsibilities once the reforms are in place.

An August 1997 agreement between HUD and the American Federation of Government Employees National Council of HUD Locals 222 established the framework for managing personnel changes to implement the 2020 plan. The agreement includes buyouts (inducements for voluntary retirements), reassignments, and an outplacement program for HUD

employees and provides that a reduction in force may be used if necessary, but not before 2002. The agreement also provides for hiring new employees for some positions.

Background

HUD is the principal government agency responsible for programs dealing with housing, community development, and fair housing opportunities. HUD's missions include making housing affordable through FHA's mortgage insurance for multifamily housing and the provision of rental assistance for about 4.5 million lower-income residents, helping revitalize over 4,000 localities through community development programs, and encouraging homeownership by providing mortgage insurance. HUD is one of the nation's largest financial institutions, responsible for managing more than \$426 billion in mortgage insurance and \$497 billion, in guarantees of mortgage-backed securities, as of September 30, 1996. The agency's budget authority for fiscal year 1998 is about \$24 billion.

HUD's major program areas are Housing, which includes FHA insurance and project-based rental assistance programs; Community Planning and Development (CPD), which includes programs for Community Development Block Grants, empowerment zones/enterprise communities, and assistance for the homeless; Public and Indian Housing (PIH), which provides funds to help operate and modernize public housing and administers tenant-based rental assistance programs; and Fair Housing and Equal Opportunity (FHEO), which is responsible for investigating complaints and ensuring compliance with fair housing laws.

HUD has been the subject of sustained criticism for weaknesses in its management and oversight abilities, which has made it vulnerable to fraud, waste, abuse, and mismanagement. In 1994, we designated HUD as a high-risk area because of four long-standing Department-wide management deficiencies: weak internal controls, inadequate information and financial management systems, an ineffective organizational structure, and an insufficient mix of staff with the proper skills. In February 1997, we reported that HUD had formulated approaches and initiated actions to address these deficiencies but that its efforts were far from reaching fruition.¹

HUD began a number of reform and downsizing efforts prior to the 2020 plan. In February 1993, then-Secretary Cisneros initiated a "reinvention" process in which task forces were established to review and refocus HUD's

¹High-Risk: Department of Housing and Urban Development (GAO/HR-97-12, Feb. 1997).

mission and identify improvements in the delivery of program services. HUD also took measures in response to the National Performance Review's September 1993 report, which recommended that HUD eliminate its regional offices, realign and consolidate its field office structure, and reduce its field workforce by 1,500 by the close of fiscal year 1999. Following a July 1994 report by the National Academy of Public Administration that criticized HUD's performance and capabilities, Secretary Cisneros issued a reinvention proposal in December 1994 that called for major reforms, including a consolidation and streamlining of HUD's programs coupled with a reduction in staff to about 7,500 by the year 2000.

Secretary Cuomo initiated the 2020 planning process in early 1997 to address, among other things, HUD's needs for downsizing and correcting management deficiencies. The process included, for each major program area, (1) management reform teams that outlined each area's business and organizational structure, proposed functional changes, identified resource requirements, and allocated staff based on downsizing targets; (2) "change agent" teams that recommended consolidations and other process changes while meeting downsizing targets; and (3) review of these teams' reports by the Secretary and principal staff. Members of the management reform and change agent teams were drawn from all levels of the agency. The plan has continued to evolve since June 1997, as implementation teams proceed with their work.

Anticipated Efficiencies Are Based on a Variety of Factors

HUD's principal documents supporting the 2020 plan are management reform and change agent reports covering each of the agency's major program areas and functions. Prepared in the spring of 1997, these reports identify a number of potential efficiencies from consolidating and centralizing processes. Beyond allowing the agency to operate with a reduced workforce, other efficiencies include reducing the processing time for single-family housing insurance endorsements and multifamily housing development applications and reducing paperwork requirements for grant programs. The potential efficiencies are generally not based on detailed empirical analyses or studies, but rather on a variety of factors, including some workload data, limited results of a pilot project, identified best practices in HUD field offices, benchmarks from other organizations, and managers' and staff's experiences and judgment.

In addition to increased efficiency, HUD expects the planned consolidation of functions and other process changes to result in increased

effectiveness. For example, fewer public housing authorities and FHA multifamily projects may become “troubled” because staff can better focus on monitoring and improving the performance of the authorities and projects that are potentially troubled.

The following sections discuss, for each of HUD’s major program areas—Housing, Community Planning and Development, Public and Indian Housing, and Fair Housing and Equal Opportunity—the specific process changes proposed in the 2020 plan, the potential efficiencies and other benefits expected from the changes, and the studies or other information HUD provided as support for the changes.

Office of Housing

HUD’s 2020 plan calls for significant organizational and process changes in three primary functions of FHA’s—single-family housing activities, multifamily housing activities, and the FHA Comptroller’s activities. As discussed below, the nature and detail of the studies and analyses supporting the process changes vary among the offices.

Single-Family Housing

Process changes proposed for single-family housing include consolidating functions, such as insurance endorsements, that were previously carried out in 81 field offices into four homeownership centers; privatizing or contracting out most property disposition activities (HUD has to dispose of FHA-insured single-family properties that it owns as a result of lenders’ foreclosures on defaulted mortgages); and eliminating most loan-servicing functions by selling the inventory of HUD-held mortgages.²

HUD expects the reforms to permit a significant reduction in staffing requirements, reduce insurance endorsement processing time to as little as 1 day (compared with an average of about 2 weeks), improve underwriting and loss mitigation, and increase loans to targeted populations through outreach. HUD also expects the reforms to address problems such as poor control and monitoring of HUD-owned properties and inconsistent delivery of quality services.

According to the Deputy Assistant Secretary for Single Family Housing, an in-house team of senior managers developed the homeownership center concept based upon the regional office structure of the Federal National

²HUD-held mortgages are those that FHA has acquired from private lenders; most often, they are assigned to FHA by lenders after borrowers have defaulted.

Mortgage Association (Fannie Mae).³ Fannie Mae serves the entire United States through offices in Atlanta, Georgia; Chicago, Illinois; Dallas, Texas; Pasadena, California; and Philadelphia, Pennsylvania. Certain functions performed by FHA generally parallel some of those performed by other organizations in the single-family mortgage industry such as Fannie Mae. In 1994, as a pilot project, FHA began consolidating its single-family loan-processing operations that were performed in 17 of its field offices into the Denver Homeownership Center. According to HUD, the pilot showed that consolidating work at one site and increasing the use of technology could reduce insurance endorsement processing time from 2 weeks to as little as 1 day. In addition, according to the change agent report, the functions in the Denver Homeownership Center were carried out with half the staff who were responsible for the functions in the 17 field offices.

Multifamily Housing

Process changes in FHA's multifamily housing activities include consolidating the asset development and management functions into 18 hubs supported by staff in 33 program centers; implementing a fast-track loan development process, which allows field offices to waive certain loan-processing requirements and tailor processing options to local needs and requires lenders to order and pay for the appraisals and inspections; and consolidating financial and physical assessments of properties, enforcement, and rental assistance functions—along with similar functions in other program areas—into three nationwide centers. (The three are the Assessment Center, the Enforcement Center, and the Section 8 Financial Management Center.)

Efficiencies projected from the changes, according to HUD, include (1) reducing the processing time for housing development applications from 360 days to 35 days and, (2) using nonfederal experience as a model, reducing individual asset managers' average workloads from 55 projects to 35 (primarily because some functions such as inspections and enforcement actions will be handled in part by the enforcement and assessment centers). In addition, HUD expects the changes to address problems such as

- inconsistency in processing loan development applications, in terms of both time and procedures;
- a failure to hold mortgagees accountable, which puts HUD at greater risk;
- asset managers overburdened with unrelated responsibilities;

³Fannie Mae is a government-sponsored enterprise that helps ensure that funds are available to home buyers by buying mortgages from mortgage originators, such as savings and loan associations, commercial banks, and mortgage bankers.

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- the lack of an efficient system to identify, assess, and respond to troubled properties; and
 - an inefficient and burdensome administration system for Section 8 rental assistance.⁴

Multifamily housing officials provided some empirical data for the projected efficiencies. For example, support for the reduction in asset managers' workload included some data on workloads in nonfederal organizations that perform similar functions and HUD's own workload analysis, which is based on its current inventory of properties. The nonfederal workload ratios varied from 18 to 37 projects per project manager. Multifamily housing officials allocated staffing to the field offices (hubs and centers) based, in part, upon the following ratios:

- 35 insured projects with subsidies per staff person,
- 55 insured projects without subsidies per staff person, and
- 16 projects per staff person for preventing the projects from becoming troubled.

A HUD survey of multifamily housing field offices showed reductions in processing time and costs using the fast-track process. Anecdotal responses from 14 offices included comments such as, "The old way took 60 to 90 days, some time longer. Processing at any one stage typically takes 30 to 40 days often much shorter;" "FAST-TRACK cut staff time from 120 hours per case to 40 hours per case;" and "Estimated savings \$17,000 to \$20,000 per case in contracting costs." Other factors that influenced the restructuring of multifamily housing offices and functions were the experiences of cross-functional teams (staffed from different offices to assist in the handling of workload problems) and field office staff's experiences.

FHA Comptroller

In accordance with the 2020 plan, the FHA Comptroller has redesigned the title I debt collection process and consolidated operations from three centers into one center (Albany, New York).⁵ In addition, the Comptroller plans to transfer routine debt collection to the Treasury Department or, if this does not prove to be feasible, to a private contractor.⁶

⁴The Section 8 program is a rent subsidy program that assists eligible low-income families.

⁵Title I of the National Housing Act authorizes FHA to provide mortgage insurance for home improvement, mobile homes, and the preservation of historic properties.

⁶Routine debts are those for which collection is not impeded by such things as bankruptcy or allegations of fraud and for which it is possible to use a mechanical process such as salary offsets.

The process changes are being made to address two major problems: (1) the recovery processes were cumbersome and poorly integrated with other processes, such as insurance premium collection from lenders and claims examination, and (2) the resources invested were not justified by the level of assets recovered. The FHA Comptroller believes that the changes will result in increased debt collection with significantly fewer staff.

The changes and benefits identified are based upon a business process redesign effort, including a workforce study, that was completed in January 1997. The process redesign showed that over a 10-year period, debt collection could increase 23 percent using fewer than half the existing number of staff. The process redesign team included a staff-level team; a management and stakeholder steering committee; and a contractor that provided consultant services.

**Office of Community
Planning and Development**

Prior to the 2020 plan, CPD consolidated the process of grantee planning and reporting for four formula grant programs and initiated a new automated system for the process. Additional changes proposed by the 2020 plan include using advanced mapping software to aid community planning, converting competitive grants providing assistance for the homeless to formula grants, and aligning resource needs and responsibilities within a new Economic Development and Empowerment Service.

The reforms are meant to address problems such as fragmented approaches for solving community concerns, limited resources for managing the over 1,300 competitive grants CPD approves in a year, and limited staffing for local monitoring of programs. From the reforms, CPD expects to (1) continue to reduce paperwork requirements; (2) improve the monitoring and review of grantees by targeting its resources to high-risk projects; and (3) reduce its workload for processing, awarding, and monitoring grant applications and grantees' activities.

CPD did not provide empirical or analytical studies supporting the efficiencies expected from the reforms. CPD officials said, however, that their operations demonstrate the viability of the process changes because many of the changes are already in place and personnel reductions had occurred prior to the 2020 plan. However, the conversion of the competitive grants to formula grants requires legislation, and if this does not occur, some monitoring activities may have to be contracted out.

Office of Public and Indian Housing

Process changes in PIH include consolidating some of the functions previously performed in 52 public housing field offices into 27 hubs and 16 program centers; centralizing and consolidating enforcement, real estate assessment, and Section 8 payment functions into three nationwide centers along with other program areas; centralizing the management of competitive grants and public housing operating and capital funds into one PIH Grants center; centralizing applications for PIH demolition/disposition, designated housing plans, and homeownership plans into one Special Applications center;⁷ centralizing functions to improve the performance of troubled public housing authorities into two Troubled Agency Recovery centers; and deregulating (reducing monitoring and reporting requirements for) small and high-performing public housing authorities.

HUD envisions that the consolidation of the field offices will even out the public housing authority workload across offices, while the specialization of functions will result in less time and fewer staff needed to carry out the functions. The reforms are meant to address problems such as a lack of monitoring and coordination of PIH programs, staffing imbalances among PIH field offices, and difficulty identifying and resolving problems with housing authorities earlier because of the intensive field resources needed to deal with troubled authorities.

PIH did not provide empirical data or analyses that show how the changes will produce the expected efficiencies. As discussed further in this report, PIH used workload and staffing data to redistribute the workload across its field offices. Other support for the changes, according to PIH officials, are on the basis of managers' and staff's past experiences.

Office of Fair Housing and Equal Opportunity

Process changes in FHEO include consolidating its existing field structure of 48 offices into 10 hubs, 9 project centers, and 23 program offices; consolidating, within both its headquarters and field offices, program compliance monitoring and enforcement functions; and cross-training field staff.

HUD intends the changes to result in more flexibility to shift resources to meet priorities or handle workload demands; improved communication and cooperation among FHEO staff; an organizational structure that will be clearer to the public; and better integration of fair housing into HUD's other programs. The changes address problems such as fragmentation of

⁷This center will review, process, and approve all nonfunded, noncompetitive applications or plans for such things as demolishing public housing units and moving public housing residents into homeownership.

responsibility and accountability in areas such as policy development, planning, and program evaluation; duplication of field oversight functions; and a split in field management between enforcement and program compliance functions, resulting in a “two FHEO” phenomenon.

FHEO did not perform analytical studies to support the changes. Rather, the reforms and benefits identified were based on the FHEO’s self-analysis, brainstorming sessions, the findings of a change agent team, a review of workload data, and discussions with employees and customers.

HUD’s Ability to Operate With 7,500 Staff Is Not Based Upon Systematic Analyses of Needs

According to the Deputy Secretary, the process changes proposed by the 2020 plan, along with partnerships with states and local entities and the use of contractors, will allow the agency to operate with 7,500 staff—a staffing target level established prior to the plan. Proposed staffing levels for each program area, as outlined in the management reform team and change agent team reports, are generally not based upon systematic workload analyses to determine needs. While the teams were instructed by the Deputy Secretary to determine staffing requirements on the basis of workload, they were also instructed to work within targeted staffing levels and HUD’s staffing constraints. The teams relied on a variety of factors, including workload data, to show whether they could carry out their responsibilities within assigned targeted staffing levels.

The 2020 plan proposes a staffing target of 2,900 for the Office of Housing, a reduction of about 44 percent from fiscal year 1996 staffing of 5,157. The 2,900 figure includes some positions that will be transferred to the Department-wide Assessment, Enforcement, and Section 8 Financial Management centers; the exact numbers are still evolving as implementation plans are developed for the three centers. The following sections discuss some of the factors considered in assessing the Housing Office’s staffing needs.

- FHA’s proposal to carry out single-family housing activities with the reduced staffing level of 764 (as of January 1998) stems primarily from the elimination of most loan servicing and property disposition activities. According to the Deputy Assistant Secretary for Single Family Housing, the proposed staffing level is based on past experience, input from the change agent team and the managers of the 2020 reorganization project, and staffing levels at the Denver Homeownership Center pilot.
- Staffing for the Title I Asset Recovery Center, part of the FHA Comptroller’s office, was based in part on a workload analysis performed as part of the

business processing reengineering project. The workload analysis showed a need for a staffing level of 62. This number was reduced to 50, according to FHA officials, after (1) discussions with Department of Treasury officials who, based on their experience with debt collection activities, believed the operations could be performed more efficiently and (2) higher level reviews, which concluded that further reductions were needed.

- When assessing multifamily housing staffing needs, FHA considered factors such as job functions, types of housing projects (subsidy or nonsubsidy, troubled or nontroubled), supervisor/staff ratios recommended by the National Performance Review, and nonfederal workloads for asset managers. As part of its assessment, FHA assumed that it will reduce troubled projects to 10 percent of the inventory (from an estimated 20 percent currently) by year 2000.

The 2020 plan proposes a staffing target of 770 for Community Planning and Development, a reduction of 8.8 percent from fiscal year 1996 staffing of 844. However, the CPD management reform plan states that an additional 200 personnel may be needed to fully implement its grants management system and undertake adequately staffed on-site monitoring for high-risk projects. This staffing level need is based, according to a CPD official, on staffing and workload data from 1992 and 1996. According to the official, the analysis used a formula that takes into consideration the number of grants, dollar amount of grants, and staffing levels and compared workloads for the 2 years. CPD was unable to provide documentation of the detailed analysis.

For Public and Indian Housing, the 2020 plan proposes a staffing target of 1,165, a reduction of 14 percent from fiscal year 1996 staffing of 1,355. After receiving its staffing target, PIH first identified the needs of the processing and operations centers. It then allocated the remaining staff to field office sites using a formula that incorporated the number of public housing authorities with 250 or more low-income housing units and/or 500 or more Section 8 rental assistance units within each office's jurisdiction.

The 2020 plan proposes a staffing target of 591 for Fair Housing and Equal Opportunity, a reduction of about 11 percent from fiscal year 1996 staffing of 663. Of the 591 staff, 475 will be in field offices. In 1996, FHEO reviewed field office workload data and estimated that it needed from about 150 to about 250 more staff than the 474 then on board. However, officials told us that the Office's legislatively established missions can be accomplished with the allotted personnel level.

In its latest semiannual report, HUD's Inspector General raised concerns about the 2020 plan, including the agency's capacity to implement the reforms.⁸ The report noted that the downsizing target of 7,500 was adopted without first performing a detailed analysis of HUD's mission and projected workload under its proposed reforms. The report also noted that although HUD is downsizing, implementation plans are not final, and the proposed legislation to streamline and consolidate programs has not been enacted.

In commenting on a draft of this report, HUD's Acting Deputy Secretary stated that the Department plans to achieve its downsizing goal of 7,500 full-time employees by 2002 in two phases. During the first phase, HUD has reduced staff to approximately 9,000 employees who are being deployed to enhance the delivery of HUD's programs and services. According to the Acting Deputy Secretary, HUD now plans to continue downsizing to 7,500 by 2002—the second phase—only if (1) the Congress enacts legislation to consolidate HUD's program structure and (2) there has been a substantial reduction in the number of troubled multifamily assisted properties and troubled public housing authorities.

Union Agreement Established Framework for Managing Personnel Changes

On August 10, 1997, HUD and the American Federation of Government Employees National Council of HUD Locals 222 signed an implementation agreement to carry out the 2020 plan.⁹ The agreement, among other things, stated that buyouts, attrition, and aggressive outplacement services would be used in lieu of reductions in force through year 2002. The agreement identified two types of positions that would be filled to implement the reforms: substantially similar positions (those that entail similar duties, critical elements, and qualification requirements and can be performed by the incumbent with little loss in productivity) and new positions.

The procedures outlined in the agreement to fill substantially similar positions are as follows:

- Reassignments to similar positions will be in the local commuting area.
- Positions not filled by reassignments will be filled by merit selection.

⁸Department of Housing and Urban Development, Office of Inspector General Semiannual Report to Congress as of September 30, 1997 (Washington, D.C.: Dec. 29, 1997).

⁹On December 1, 1997, HUD signed a separate agreement with the National Federation of Federal Employees, which, among other things, establishes procedures for filling merit selection announcements in its bargaining unit positions in HUD offices.

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- Any positions still vacant will be filled by management's directed reassignment of an employee. (Because of employees' concerns, HUD has decided not to use this procedure.)
 - Any position still vacant will be filled by outside hires.

The procedures outlined in the agreement to fill new positions are as follows:

- For HUD's new consolidated centers, positions will be filled using merit selection procedures. Except for positions that require special skills—for example, HUD attorneys and some Community Builders—merit staffing will be restricted to HUD employees.
- Any positions still vacant will be filled by management's directed reassignments. (Because of employees' concerns, HUD has decided not to use this procedure.)
- Any positions still vacant will be filled by outside hires.

HUD initiated personnel actions to implement the 2020 reforms in September 1997. A buyout was held that closed September 30, 1997, in which 771 employees were approved to leave the agency. In October 1997, HUD mailed letters to each of its employees regarding their status under the reforms.

- HUD sent letters to 3,024 employees notifying them that their jobs were unaffected by the reforms.
- HUD sent letters to 3,184 employees notifying them that they would be voluntarily reassigned to substantially similar positions within the same geographical area.
- HUD sent letters to approximately 3,000 employees notifying them that they had not been placed in a position in HUD's new organization. The letters also stated that they would remain in their current position if they did not obtain a position through merit staffing, or voluntary reassignment, or a career outside of HUD. The letter stated that HUD would not implement a reduction in force until 2002 if one was necessary.

On October 16, 1997, according to HUD, it announced 1,676 merit staffing vacancies. The announcements closed November 3, 1997. In November, an Office of Personnel Management team reviewed HUD's merit staffing guidance for filling these vacancies and made several suggestions for revising the language in the guidance. Also, in November, HUD announced a second buyout that employees had to take advantage of by December 23,

1997. An additional 230 employees were approved to leave the agency under the buyout.

In January 1998, HUD announced additional voluntary reassignments for positions that remained unfilled. Any positions still vacant after the voluntary reassignments will be advertised for outside hires.

Observations

The HUD 2020 Management Reform Plan is the latest in a series of recent proposals to overhaul a department that has been long-criticized for its management weaknesses—including those that contributed to our designation of HUD as a high-risk area. The plan is directed, in part, towards correcting the management deficiencies that we and others, including the Inspector General and the National Academy of Public Administration, have identified. The plan also incorporates steps for simultaneously reducing the agency's workforce.

The 2020 plan is still evolving. Because the reforms are not yet complete and some of the plan's approaches are untested, the extent to which its proposed reforms will result in the plan's intended benefits is unknown. In addition, because the downsizing target of 7,500 staff is not based upon a systematic workload analysis to determine needs, it is uncertain whether HUD will have the capacity to carry out its responsibilities once the reforms are in place. Furthermore, the plan references legislative proposals, some of which, if not enacted, could affect workloads and staffing needs. Moreover, the process changes and downsizing suggest a greater reliance on contractors to help carry out HUD's mission.

These uncertainties heighten the need for HUD, as it moves forward with implementing the 2020 plan's reforms, to carefully monitor its performance, assess the impact of the reforms, and amend the plan if necessary—including its staffing targets. Consulting with the Congress, its customers, and other stakeholders through a mechanism such as the Government Performance and Results Act could enhance the success of these efforts.

Agency Comments and Our Evaluation

HUD provided comments on a draft of this report (see app. I). HUD said that the report did not consider the agency's need for management reform and whether the plan focuses on the right areas. HUD also said that (1) due to its focus on the role of empirical analysis, the draft report did not adequately acknowledge other methods used to develop specific

management reforms, (2) the draft report did not reflect that HUD undertook substantial workload analyses to plan for reaching the goal of 7,500 employees, and (3) the draft report failed to discuss any of the benefits likely to emerge from the plan's systemic changes. In its comments, HUD also included information on the 2020 plan's implementation status and how certain of its specific reforms are expected to address problems identified by its Inspector General, GAO, and others.

Our draft report did not specifically assess HUD's need for management reform and whether the plan focuses on the right areas because they were outside the scope of our objectives. However, the report contains background information on the agency's history of management problems and its reform and downsizing efforts prior to the 2020 plan. We agree that there was a need for HUD to take action and that some actions included in the 2020 plan may help to correct deficiencies that we and others have identified. The 2020 plan seeks to solve many of the critical problems facing the Department. HUD's recognition that it needs to establish Department-wide capacities for real estate assessment and enforcement activities; improve internal controls; and improve systems and staffing for monitoring funds and multifamily project and public housing authority activities is consistent with the long-standing concerns that we and others have had. In this regard, our report was not intended to fault HUD's attempts to correct these deficiencies, and we have made changes where appropriate to reflect a proper tone.

Regarding HUD's comment about a focus on empirical analysis, two of our three objectives concerned the studies and analyses underlying (1) the efficiencies derived from centralizing and consolidating certain programs and activities and (2) the Department's ability to carry out its responsibilities with the plan's target staffing level of 7,500. By their nature, these questions encompass the role of empirical analysis. The draft report did acknowledge the role played by other factors—including the change agent and management reform teams, the experience of HUD managers and staff, the practices of other organizations, and the experience of the Denver Homeownership Center pilot project—in setting out the efficiencies HUD expects from centralizing and consolidating certain activities. In its comments, HUD said that, in addition to the factors cited in our draft report, it consulted with recognized management experts prior to the June 1997 release of the 2020 plan; consulted with affected constituent groups and the Congress since the plan's release; and incorporated the Inspector General's suggestions into its implementation plans. We agree that such steps may be useful in building support for HUD's

reforms. However, as noted, our objectives were to provide information on HUD's analytical support for the efficiencies it expects from the reforms—that is, the extent of data supporting the anticipated quantitative and qualitative benefits stated in the 2020 plan.

HUD said that it undertook substantial workload analyses to plan for reaching the goal of 7,500 employees and that the workload analyses—along with the reengineering of numerous processes—formed the foundation for staffing size and allocation decisions. As we noted in our draft report, HUD's management reform and change agent teams relied on a variety of factors, including workload data, to show whether each program area could carry out its responsibilities within assigned targeted staffing levels. However, we draw a distinction between (1) analysis that is directed at determining how many staff are needed to carry out a given responsibility or function and (2) the use of historical workload data to apportion, or allocate, a predetermined target number of staff among different locations or functions. While HUD clearly used the latter approach, at least within some program areas, it provided us with no evidence during our review or in its comments that it used the former.¹⁰ Rather, as our report states, the management reform and change agent teams were instructed by the Deputy Secretary to work *within targeted staffing levels*; the predetermined target level for the entire Department was 7,500, a number established prior to the 2020 planning process. As is also noted in our report, HUD's Inspector General reported in December 1997 that the downsizing target of 7,500 was adopted without first performing a detailed analysis of HUD's mission and projected workload under its proposed reforms. We have revised the language in our report where appropriate to make this distinction clear. We also added information that HUD provided in its comments concerning future downsizing to the 7,500 level from the current level of about 9,000.

Concerning HUD's comment that the draft report did not acknowledge potential benefits from the 2020 reform plan, the report noted that the plan is directed in part towards correcting management deficiencies that we and others have identified. Furthermore, the report noted that, in addition to increased efficiency, HUD expects the planned consolidation of functions and other process changes to result in increased effectiveness, such as fewer troubled public housing agencies and troubled FHA multifamily projects. For the reasons stated in the report, we continue to

¹⁰An exception was the analysis for staffing the Title I Asset Recovery Center. As discussed in the report, staffing for this center was based in part on a workload analysis performed during a business processing reengineering effort. Staffing for this center was part of the Office of Housing's staffing target of 2,900.

believe that the *extent* to which these benefits will be realized is as yet uncertain. HUD implicitly acknowledges this uncertainty in its comments by conditioning its further downsizing in part on a “substantial” reduction in troubled public housing agencies and multifamily projects.

Scope and Methodology

To identify HUD’s analyses supporting the (1) prospective efficiencies from centralizing and consolidating major programs and activities and (2) agency’s ability to carry out its responsibilities with 7,500 employees, we reviewed the management reform and change agent reports for each of HUD’s major program areas. We also interviewed officials in each program area who had participated in, or were familiar with, the process of developing the 2020 plan. We asked officials in each program area to provide any empirical studies or analyses underlying the proposed reforms that did not appear in the management reform or change agent reports. In addition, we spoke with officials in HUD’s Office of the Assistant Secretary for Administration and obtained the Inspector General’s report on the 2020 planning process. To identify how HUD plans to manage the personnel changes that will result from the reforms and downsizing, we interviewed officials responsible for the changes and obtained copies of union agreements and other relevant documents. We performed our work from September 1997 through February 1998 in accordance with generally accepted government auditing standards.

We are sending copies of this report to appropriate congressional committees; the Secretary of Housing and Urban Development; and the Director, Office of Management and Budget. We will make copies available to others upon request.

If you or your staff have any questions, please call me on (202) 512-7631. Major contributors to this report are listed in appendix II.



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

Comments From the Department of Housing and Urban Development



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

March 5, 1998

Judy England-Joseph
Director, Housing and Community
Development Issues
United States General Accounting Office
Washington, DC 20548

Dear Ms. England-Joseph:

Thank you for the opportunity to respond to your draft report, *HUD Management: Information on HUD's 2020 Management Reform Plan*.

While we understand that the report was undertaken in response to a Congressional inquiry in the fall of 1997, we are extremely concerned that the report does not reflect the most up-to-date conception, specifics or analytical underpinning of HUD's current management reform plans. Neither the questions the report sets out to answer, nor its findings provide the full picture of the depth of analysis undertaken both prior to and since the June publication of the Management Reform Plan.

The GAO report also does not acknowledge the critical role of the systemic changes that are occurring at HUD. By focusing narrowly on the role of empirical analysis underlying the restructuring of program offices, GAO fails to discuss any of the benefits likely to emerge from the new cross-cutting assessment, enforcement and community builder functions and other systemic changes. These cross-cutting functions are critical to the design and success of the Plan because they provide HUD with new capacities that have never existed in the past, freeing up program offices to focus on providing better program administration, oversight and monitoring.

The GAO report addresses three questions: 1) What studies and analyses did HUD perform to determine the efficiencies derived from the centralization and consolidation of Federal Housing Administration (FHA) and other major programs and activities? 2) What studies and workload analyses were conducted to show that the agency will be able to carry out its responsibilities with 7,500 employees? and 3) How does HUD plan to manage the personnel changes that will result from the reforms and downsizing?

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We would strongly recommend that GAO also consider two additional questions:

- 1) Was there a compelling need for HUD to develop and implement a plan to reform agency management in a timely fashion?
- 2) Were the principal thrusts of our reform plan -- namely, the establishment of Department-wide capacities for real estate assessment and enforcement, improved internal controls, improved systems and staffing for monitoring and oversight of multifamily properties and public housing authority activities, and delivery of enhanced customer service -- the right areas on which to focus our efforts?

HUD believes the answer to both of these questions is a strong yes. Most importantly, HUD has overcome tremendous institutional inertia and built a momentum for change that will carry the implementation of the Plan forward.

This letter responds to the GAO report first by describing the five pieces of HUD's management reform efforts and then addresses key GAO findings.

I. Overview of HUD 2020 Management Reform Plan

Shortly after taking office in February of 1997, Secretary Cuomo began with the understanding that while the mission of HUD was more vital than ever, the Department itself faced a competence gap that compromised its ability to fulfill its mission. Decades of neglect left HUD with the dubious distinction of being the only federal agency designated as "high risk" by the General Accounting Office. One of HUD's Congressional chairman called the Department "dysfunctional." HUD's own Inspector General reported that "prospects for further improvement (at HUD) were dim." The case for real and lasting change was overwhelming.

In one year, HUD has made significant strides to correct these problems. In June 1997, Secretary Cuomo released the *HUD 2020: Management Reform Plan*. It put forward a comprehensive plan to reform the way HUD delivers critical programs and services to America's communities grounded in the best approaches of both the public and private sectors. The release of the Plan in June, was however, only the first mile marker of a marathon to reform HUD's structure and operations from top to bottom. Since June, HUD has made great progress in both filling in many operational and implementation details and begun the even harder work of changing HUD's culture.

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Core elements of the Plan include:

- **Creation of Cross-Cutting Assessment and Enforcement Centers:** HUD is creating a new system for assessing the physical and financial health of multifamily properties and public housing authorities that will establish annual scores of each property and housing authority.

In July 1997, Secretary Cuomo appointed an FBI agent to oversee HUD's new Enforcement Center. Its mission: protect the taxpayers' investment and restore the public trust. Working cooperatively with the Department of Justice (DOJ), the FBI and other law enforcement teams, the new Enforcement Center will take action against those found abusing HUD programs. The Enforcement Center will also proactively generate an ongoing fraud control strategy that identifies potential fraud situations and develops appropriate policy responses to ensure that fraud is stopped before it occurs.

- **Shifting FHA Single Family Operations from Retail to Wholesale:** Modeled on private sector practices, FHA is consolidating all single family processing operations from 81 Field Offices to 4 Homeownership Centers. In addition, FHA proposes to privatize single family property disposition functions. This will permit FHA to dramatically speed up processing of single family mortgage applications with substantially fewer staff.
- **Consolidation of PIH and Multifamily Field Operations:** Both the Office of Public and Indian Housing (PIH) and Multifamily Housing (MF) are consolidating field office structures to enhance program administration and oversight. PIH is establishing 27 Field Office Hubs and 16 Program Centers, along with a Grants Management Center to process funding applications, two Troubled Agency Recovery Centers to assist troubled housing authorities and a Section 8 Financial Management Center to process payments for both tenant- and project-based Section 8 units. MF housing is consolidating its operations into 18 Program Hubs and 33 Program Centers. In addition, MF housing will be utilizing Contract Administrators to administer all MF Section 8 contracts.

These consolidations, along with the creation of the new Assessment, Enforcement and Section 8 Financial Management Centers will allow program office staff to focus greater time and attention on program administration and oversight functions.

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- **Establish Community Builders and Public Trust Officers:** For the first time, HUD will clearly divide the staffing functions of facilitating community access to HUD programs from those who are monitoring and overseeing programs to ensure compliance with program rules and regulations. Community Builders will be the external face of the Department for HUD clients and customers. Community Builders will be connecting clients and communities to the full range of HUD resources that are available to them. Public Trust Officers will administer program competitions and oversee program operations.
- **Financial System Integration:** HUD is integrating the 89 financial systems into a single, user-friendly system that helps managers make decisions and clearly shows how communities invest their HUD dollars. Specifically, HUD will be using the Federal Financial System (FFS) to serve as its consolidated ledger system. The Department is currently taking steps to replace the FHA's general ledger system with the FFS system and is consolidating other departmental general ledgers into FFS. HUD is also standardizing and cleaning all data in its systems. Newly cleaned data will also be integrated into Community 2020 program data systems to improve the reporting of both financial and program activities.
- **Streamline HUD's Workforce:** Through unprecedented employee personnel actions such as buy-outs and personnel reorganization, HUD has been able to streamline staffing and reorganize operations. HUD's workforce is now 9,000, down from 10,500 at the end of 1996. To date, HUD has posted and filled 1,100 positions in the new organizational structure, hired 90 percent of new managers for places in the new structure, and executed 1,000 buyouts. The Secretary negotiated an historic agreement with HUD unions to work cooperatively to staff the new streamlined HUD with no layoffs before 2002.

More importantly, HUD is deploying staff where they are needed most, to provide effective monitoring and oversight of troubled housing projects and troubled PHAs, and to provide value-added front-line services to HUD customers in their communities through HUD's new Community Builders. This redeployment of staff is made possible by the other systemic changes HUD is implementing.

Implementation of these reforms is well underway.

- Four FHA Single Family Homeownership Centers are already operational. By April 1, all 18 FHA Multifamily Program Hub offices will be operational.

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- Public and Indian Housing already has 27 Program Hubs and 16 Program Centers operational. By August 1998, the Public Housing Grants Management Center and Troubled Agency Recovery Centers will also be operational.
- The Assessment Center is currently using its new physical inspection protocols on a portion of HUD's portfolio.
- The Section 8 Financial Management Center will be fully operational and handling 100 percent of the Section 8 financial processing by October 1998.
- The Enforcement Center has already begun working on cases. Four assistant U.S. attorneys have been detailed to the Center.
- More than 300 Community Builders from existing HUD staff have already been selected. Their training will commence in March, with the first training sessions at Harvard University occurring in August. Outside hires of 230 Community Builders will be completed by August.

In 1998, we will continue to keep our focus on broadening and deepening the roots of reform to ensure that new systems are brought on line, new centers are opened and operating, and HUD's ways of doing business are changed. By September 30, 1998, our major implementation efforts will be substantially complete.

II. Extensive Analysis Has Been Done To Design the HUD 2020 Management Plan

The GAO analysis finds that HUD has failed to undertake adequate empirical analysis and other studies in developing its management reform plan. In fact, HUD has undertaken extensive workload analysis. The GAO assessment also implicitly assumes that such detailed empirical analyses are the only valid method for measuring the adequacy of HUD's plans. But HUD has also utilized a number of additional widely accepted methods to develop and implement management reforms.

A. HUD Undertook Substantial Workload Analysis

HUD undertook substantial workload analyses to plan for reaching the goal of 7,500 employees. HUD has provided GAO with exhaustive workload analyses developed by FHA/Office of Housing, PIH, Fair Housing, as well as those for the new Assessment Center and the new Enforcement Center. These workload analyses -- along with the reengineering of numerous processes -- have formed the foundation for staffing size and allocation decisions.

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HUD will also soon be releasing the results of a comprehensive review of its staffing and workload analyses conducted by the private management consulting firm of Booz-Allen. Booz-Allen was hired to review HUD's underlying staffing and workload analyses and make recommendations to HUD for allocating unplaced staff for priority transitional activities.

B. HUD Has Used Numerous Other Analytic Methods in Developing Reform Plans

GAO's assessment focuses solely on empirical analyses. This is too narrow a focus and misses the range of analytic methods underlying HUD's reforms.

HUD's approach for developing its reform plans has not been limited to workload analyses. HUD has utilized a number of other approaches to develop and refine management reform strategies including:

- **Review of Critical Reports.** At the outset, HUD reviewed the voluminous analyses, studies and hearings conducted by the GAO, HUD's own Inspector General, the National Academy of Public Administration, and Congressional Committees. These reports extensively documented HUD's management deficiencies and recommended solutions, many of which have been incorporated into HUD's plans. For example, the IG and GAO have repeatedly called for the need for integrated financial systems, enhanced enforcement efforts against troubled properties and reallocation of staffing to address key program priorities. HUD's management reform plan addresses each of these concerns.
- **Pilot Program Experience.** Perhaps the most critical changes to the HUD restructuring plan are the changes taking place in FHA's single family operations, where HUD is shifting from a retail approach in 81 field offices to a wholesale operation where single family mortgage applications are processed in four Homeownership Centers across the country. These changes are the linchpin to HUD's larger reform efforts because of the tremendous staffing reductions that are achieved through this consolidation.

The proposed consolidation to four Homeownership Centers follows on the proven track record in productivity improvements at a consolidated Homeownership Processing center that has been operational in Denver for the past three years. Relying on fewer staff, but state-of-the-art technology, the Denver Center has reduced mortgage processing times from 4-6 weeks to less than three days, with projected improvements to meet the industry standard of one day on the horizon, while actually increasing the total number of loan applications processed.

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The GAO appears to discount this “real world” demonstration of an effective reform by describing this substantial demonstration as “limited results of a pilot project (p. 6).”

- **Change Agent Teams.** Secretary Cuomo established program office and cross-cutting function “Change Agent” teams consisting of more than 100 senior Headquarters and field staff to develop recommendations for reform. The dedication of cross-cutting senior managers to develop reform plans based on their experience and judgment is a device commonly used in both private- and public-sector restructuring efforts. Each change agent team undertook its own workload analysis and reviewed existing program structure, organizational structure, delivery systems, financial management systems and internal controls before making their recommendations.
- **Consultations with Outside Experts.** Prior to the release of the June *HUD 2020* report, HUD consulted with management reform experts in both the public and private sector reform, including David Osborne, James Champy and private management consultants Ernst and Young, LLP. While each provided a range of insights, all encouraged HUD to act swiftly, to undertake bold rather than incremental reforms and to continue to refine the plan even as implementation proceeded. HUD has heeded this advice.
- **Consultations with Affected Constituent Groups and Congress.** HUD has undertaken exhaustive consultations with affected constituent groups and with members of Congress and their staffs since the release of the *HUD 2020* report. Such consultations have been critically important because they have provided feedback from the people who are using and delivering our programs. These consultations have resulted in substantial refinements of the original plan, and provided input into detailed implementation plans, including the decision to keep the Assessment and Enforcement Centers located in Washington, DC.
- **Consultations with HUD’s Inspector General.** Senior HUD management staff have devoted extensive time reviewing HUD’s management reform plans with the Inspector General and her staff. Implementation plans have incorporated numerous suggestions. For example, at the IG’s suggestion, HUD will maintain enforcement responsibility for near-troubled properties in FHA’s Multifamily Office. Also, the IG has provided suggestions which have been incorporated for improving the monitoring by FHA Multifamily Contract Administrators.

III. HUD's 2020 Management Reforms Will Significantly Improve HUD's Effectiveness

One of GAO's principle conclusions is that "Because some of the planned changes are untested and lack empirical analysis, the extent to which they will result in the intended benefits is unknown." While many of the reforms may not have been tested at HUD, they do respond directly to both the criticisms and recommendations of both the GAO and HUD's own Inspector General, and have been tested by many other institutions.

The conclusion also defies a more fundamental standard of common sense. HUD is putting in place new capacities that have never previously existed. Even if such capacities are only, for example, 80 percent effective, they will substantially enhance overall agency performance.

The following are a sampling of those areas where HUD's reforms will improve HUD's performance:

- **Real Estate Assessment Center:** HUD has never had a system in place to assess the physical and financial health of its multifamily portfolio, or a reliable system to comprehensively assess the physical conditions, the financial status, and the management capacity of public housing authorities administering the public housing inventory. HUD is developing that will utilize state-of-the-art computer technology and standardized protocols, verified by independent audits and controlled by sophisticated quality control/quality assurance systems to deliver annual aggregated scores on all assisted properties and public housing authorities. While this system is now being tested in the field, common sense suggests this new capacity will enhance HUD's ability to manage its public and assisted portfolios.
- **Enforcement Center:** HUD has never had an enforcement office distinct from program operations, devoted solely to enforcement actions against troubled multifamily properties, troubled PHAs and CPD and FHEO grantees who fail to comply with program requirements. Based on the determinations made by the Assessment Center systems, the Enforcement Center will work with the Department of Justice and other law enforcement agencies to take firm and effective actions against owners of assisted properties who fail to maintain the physical condition of their properties or conduct financial improprieties. While not yet tested, common sense indicates that having a dedicated enforcement capacity independent from program operations is likely to improve the Department's ability to enforce its contractual requirements with private owners, public housing authorities and other HUD clients.

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- **FHA Single Family Operations:** For years, GAO and others have exposed the failure of FHA to incorporate new technology and private-sector organizational structure to enhance performance. HUD's proposed reforms are modeled on HUD's successful Denver Homeownership processing center and the structure of Fannie Mae and other private sector organizations. While no specific empirical study would definitively predict the level of efficiencies gained, HUD's experience and common sense would suggest that improved single family operations will result from the proposed changes.
- **Troubled Public Housing Authorities:** For years, GAO and the IG have demanded that HUD make greater efforts to address the problems of troubled public housing authorities. Under Secretary Cisneros, HUD took aggressive actions to redress problems in a number of large historically troubled agencies. The GAO and the IG then raised questions about HUD's capacity to address troubled agencies while providing adequate oversight of other PHAs. HUD now proposes to create two Trouble Agency Recovery Centers (TRACs), devoted solely to working with troubled housing authorities to improve their operations. While not empirically tested, establishment of freestanding TRACs will create a system for fixing troubled housing authorities that does not compete with other staff functions.
- **Community Builders and Public Trust Officers:** For the first time, HUD proposes to clearly delineate staff who are responsible for working with HUD constituents and facilitating access to HUD programs -- Community Builders -- and staff who are responsible for ensuring that HUD funds are used in accordance with HUD rules and regulations -- Public Trust Officers. In the past, the same employees were responsible for both of these potentially conflicting responsibilities.
- **Financial Systems Integration:** This project has completed Phase I assessment and planning and selected a new umbrella system for both the integration and general ledger for FHA. Data cleanup for this system is well advanced and a new streamlined risk management system has been developed and implemented. Each new major management reform Center (assessment, enforcement, etc.) either is or will be undergoing a front-end risk assessment to detect potential areas of vulnerability and to develop risk abatement strategies. The unquestionable progress in financial systems integration addresses one of the most serious on-going management challenges posed by GAO and the IG.

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- **Chief Financial Officer:** The role of the Chief Financial Officer was substantially strengthened to align strategic planning under the Government Results Performance Act (GPRA), financial management and budgeting under a single office. To date we have made significant progress and improvements in the development of the HUD budget -- including a strengthening of the process used to budget for Section 8 renewals -- performance measures and financial systems integration.

IV. HUD Has A Plan To Better Deploy Its Workforce

GAO's assertion that HUD did not do a "systematic workload analysis" to determine whether it could work with 7,500 employees has two flaws.

A. HUD Did Do Extensive Workload Analyses in Many Areas

See discussion in Section II. A. above.

B. HUD's Streamlining Will Occur in Two Phases

HUD has detailed plans to achieve its downsizing goals of 7,500 full time employees by 2002 in two phases. In Phase I, HUD has reduced staff to approximately 9,000 employees. These 9,000 employees are being deployed to enhance the delivery HUD programs and services. HUD will move to Phase II staffing of 7,500 by 2002, *if and only if two critical assumptions are met by that time:* 1) the enactment of legislation by the Congress to consolidate HUD's program structure, and 2) there has been a substantial reduction in the number of troubled multifamily assisted properties and troubled PHAs.

Phase I: A Better Deployment of 9,000 Employees

There are currently 9,000 staff employees and HUD will remain at this size through the next few critical years of reform. This is Phase I of HUD's reform efforts.

Phase I is what we are focusing on now -- the reality of making today's HUD work better, smarter, and more efficiently. As of March 1, HUD has approximately 9,000 employees. One of the early successes of HUD 2020 is the reallocation of its existing workforce to match critical workload priorities. The central underlying premise is that the consolidation of FHA Single Family processing into just four Homeownership Centers allows HUD to both substantially reduce Single Family staff and to reallocate to higher priority needs, including Multifamily oversight, Public and Indian Housing, and the new Assessment and Enforcement Centers.

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These 9,000 employees are better deployed to address the critical program needs than ever before. How are they better deployed?

- **Division between Community Builders and Public Trust Officers** represents a historic shift to clarify conflicting demands between assisting communities and clients and enforcing HUD program rules.
- **Creation of Assessment and Enforcement Centers** gives HUD a capacity to comprehensively assess our real estate portfolio for the first time and focuses enforcement efforts where they are needed most. Competent assessment and enforcement will also create an effective deterrent to prevent more properties and PHAs from falling into a troubled state.
- **PIH and MF Housing Staff** can focus more time and attention to program oversight and administration, since the worst properties and housing authorities will be addressed by the new Enforcement Center and the Troubled Agency Recovery Center (for PIH).
- **Staffing of Multifamily Housing is increased**, relying on both employees who are placed in the new organizational structure and those who are not. This substantially reduces ratios of properties each MF staff oversees and will substantially strengthen HUD's asset management capacity.
- **Other program areas**, including Public and Indian Housing, Community Planning and Development and Fair Housing will not experience any further substantial reductions in staff to reach the 7,500 goal.

HUD is confident that the roughly 9,000 employees in our existing workforce are better deployed to deliver and oversee HUD programs than the 10,500 on board at the beginning of 1997.

Phase II: Future Downsizing Contingent on HUD Two Critical Assumptions

While HUD's planning goal of 7,500 remains in place, achievement of that goal is contingent upon two critical assumptions: 1) the achievement of substantial reductions in the number of troubled multifamily assisted properties and troubled public housing authorities; and 2) enactment of proposed program consolidations that will reduce the number of programs HUD must administer and oversee.

V. HUD's 2020 Personnel Process is Seen As a Model for Federal Agencies

GAO accurately describes the personnel process that HUD is using to implement the HUD 2020 reform plan. HUD's agreement with its employee unions is a model for government-union cooperation in management reform. Moreover, HUD has consulted closely with the Office of Personnel Management and with the former Director of the Office Personnel Management, James B. King. OPM has indicated that HUD's personnel processes are a model for other federal agencies.

GAO documents well the additional steps HUD has taken to staff its new structure, including the unprecedented merit staffing of approximately 900 positions concluded in January of this year, followed by a reassignment process to help fill remaining vacancies.

Conclusion

HUD's 2020 Management Reform Plan and its implementation is a vindication of years of GAO reporting on the agency. HUD 2020 is the blueprint to implement many of GAO's proposed reforms. Unlike previous reform efforts, however, this plan has already moved from the drawing boards into full-scale implementation. It is already yielding improvements in HUD's internal management capacities and in the delivery of HUD programs to individuals and communities across the country, as well as changing the future of the agency.

In its analysis, GAO has examined the empirical analyses underlying HUD's proposed organizational reforms. The narrow focus of GAO's inquiry produces incorrect and misleading conclusions about HUD's reform efforts. GAO inadequately acknowledges the substantial empirical workload analysis that HUD has undertaken and the range of alternative analytic methods HUD has utilized in its planning.

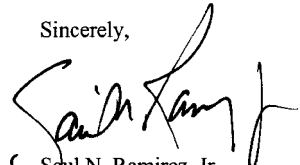
GAO also does not fully discuss the important new capacities provided by the new cross-cutting HUD Centers, which are integral to the systemic reforms HUD is putting in place. The Centers provide HUD with capacities that have never existed and allow program offices to focus more energy and resources on program administration and oversight.

GAO's assessment of HUD's ability to carry out its responsibilities with 7,500 employees does not take into account the phased nature of HUD's streamlining plan. GAO also does not capture the full extent to which HUD has conducted workload analyses underlying HUD's plans.

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We hope you will take these comments into consideration as you finalize this report. We look forward to working with you as we continue to implement our management reforms.

Sincerely,



Saul N. Ramirez, Jr.
Acting Deputy Secretary

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Related GAO Products

Results Act: Observations on the Department of Housing and Urban Development's Draft Strategic Plan (GAO/RCED-97-224R, Aug. 8, 1997).

High-Risk Series: Department of Housing and Urban Development (GAO/HR-97-12, Feb. 1997).

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