

GAO

Report to the Ranking Minority  
Member, Committee on Governmental  
Affairs, U.S. Senate

July 2001

DEPARTMENT OF  
HOUSING AND  
URBAN  
DEVELOPMENT

Status of Achieving  
Key Outcomes and  
Addressing Major  
Management  
Challenges



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G A O

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United States General Accounting Office  
Washington, DC 20548

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July 6, 2001

The Honorable Fred Thompson  
Ranking Minority Member  
Committee on Governmental Affairs  
United States Senate

Dear Senator Thompson:

As you requested, we reviewed the Department of Housing and Urban Development's (HUD) fiscal year 2000 performance report and fiscal year 2002 performance plan required by the Government Performance and Results Act of 1993 (GPRA) to assess the agency's progress in achieving selected key outcomes that you identified as important mission areas for the agency.<sup>1</sup> These are the same outcomes we addressed in our June 2000 report on the agency's fiscal year 1999 performance report and fiscal year 2001 performance plan to provide a baseline by which to measure the agency's performance from year to year.<sup>2</sup> These selected key outcomes are:

- increased homeownership;
- increased affordable, decent, and safe rental housing;
- improved community economic vitality and quality of life; and
- less fraud, waste, and error in HUD's programs.

As agreed, using the selected key outcomes for HUD as a framework, we (1) assessed the progress HUD has made in achieving these outcomes and the strategies the agency has in place to achieve them; and (2) compared HUD's fiscal year 2000 performance report and fiscal year 2002 performance plan with the agency's prior year performance report and plan for these outcomes. Additionally, we agreed to analyze how HUD addressed its major management challenges, including the governmentwide high-risk areas of strategic human capital management and information security, that we and HUD's Office of Inspector General

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<sup>1</sup>This report is one of a series of reports on the 24 Chief Financial Officers (CFO) Act agencies' fiscal year 2000 performance reports and fiscal year 2002 performance plans.

<sup>2</sup>*Observations on the Department of Housing and Urban Development's Fiscal Year 1999 Performance Report and Fiscal Year 2001 Performance Plan* (GAO/RCED-00-211R, June 30, 2000).

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(OIG) identified. Appendix I provides detailed information on how HUD addressed these challenges. Appendix II contains HUD's comments and our response on a draft of our report.

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## Results in Brief

Although HUD did not attain all of the goals pertaining to the selected key outcomes in its fiscal year 2000 annual performance plan, the performance report shows that HUD made some progress toward achieving the outcomes. However, HUD's progress varied for each outcome, and the information presented in the performance report does not always provide sufficient information for the reader to evaluate HUD's contribution to achieving the outcome. In general, HUD's strategies for achieving these outcomes appear to be clear and reasonable. Neither the performance report nor the performance plan discusses strategic human capital management or information technology issues as part of HUD's strategies to address the programmatic outcomes, although some information on those issues is included as part of HUD's efforts to address its management challenges and to achieve its goal of ensuring public trust. We identified management challenges that relate to two of these outcomes.

*Planned outcome: Increased homeownership.* The report shows that homeownership increased. However, the report does not clearly explain how HUD's programs contributed to the increases, given the external factors discussed and the fact that HUD did not achieve some of its programmatic goals related to homeownership. Although HUD provided clear and reasonable strategies for achieving its goals, it generally did not provide strategies for achieving unmet fiscal year 2000 goals.

*Planned outcome: Increased affordable, decent, and safe rental housing.* HUD's performance report shows that it made some progress toward the outcome of increasing affordable, decent, and safe rental housing. However, it was less successful in increasing the supply of affordable housing relative to the number of people who need it most. We found one measure for which the data in the report do not agree with data that have been reported to us, a fact that reaffirms our concerns as discussed in other reports about the reliability of performance data. The performance report and plan generally discuss the strategies that affect achievement of this outcome, although they do not discuss specific tools or risk assessments that HUD will use to address some of the issues discussed.

*Planned outcome: Improved community economic vitality and quality of life.* The performance report indicates that HUD made some progress

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toward achieving this outcome. However, we could not fully assess HUD's progress because the report indicates difficulties exist with constructing a system to measure HUD's contributions to achieving the outcome. HUD reported that about half of the related measures were revised or deleted in subsequent performance plans. The performance report generally discusses the programs that support this outcome, rather than specific strategies. The discussions of the performance measures for this outcome acknowledge data reliability issues more clearly than such discussions under some of the other outcomes.

*Planned outcome: Less fraud, waste, and error in HUD programs.* As we reported last year, HUD does not have a goal to reduce fraud, waste, and error in its programs; but it includes measures under its strategic goal of ensuring public trust that would contribute to achieving this outcome. HUD's progress toward reducing fraud, waste, and error is not clear based on the results reported for those selected measures, which indicate that some of the goals were not met or data were not yet available. However, this information may result in a somewhat more negative view of HUD's accomplishments related to this outcome than is warranted because the 1-year assessment does not consider the progress HUD has made to address its management deficiencies and its plans for future improvements. The performance report provides reasonable strategies to improve HUD's operations, some of which are linked to specific performance measures, but the report does not generally address plans for achieving unmet goals. The discussion of strategies in the fiscal year 2002 performance plan is somewhat better than the discussion of strategies for the other outcomes because these strategies include more specific steps to be taken to achieve the desired outcomes. However, strategies, goals, or measures that specifically address fraud, waste, and errors, along with a risk assessment process to identify the most vulnerable programs, would be useful in future plans.

HUD has made improvements in its fiscal year 2000 performance report and 2002 annual performance plan over prior years' reports. The performance report is in the new format HUD developed for its annual performance plans beginning with fiscal year 2000. This improved the report's readability and clarity, although HUD's progress in achieving some measures is still not clearly articulated. HUD combined its fiscal year 2000 performance report with its fiscal year 2000 accountability report, which consolidated a substantial amount of important information into one document that also helps the reader understand the scope of HUD's activities. However, more needs to be done to improve the usefulness of the performance report, such as including a more specific assessment of

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the completeness and reliability of performance data. The fiscal year 2002 performance plan includes an expanded discussion of evaluations, more information on the limitations and advantages of data, and information on HUD's human capital challenges. However, we noted that the discussion of resources, coordination strategies, management challenges, and credibility of performance data could still be improved.

The performance report and fiscal year 2002 performance plan do not include specific goals or measures designed to resolve HUD's management challenges or the governmentwide management challenges, but they do include numerous measures pertaining to those issues. Both the performance report and performance plan state that the management challenges are a high priority for the Secretary. Two of the outcomes selected for this report relate to HUD's management challenges.

HUD generally agreed with the information presented in our report. Overall, HUD found the report to be balanced and useful for both recognizing the significant progress that the Department has made and pointing out areas where more progress is needed. However, HUD identified some areas that it believed should be clarified. For example, HUD disagreed with our statement that it generally did not provide strategies for achieving its unmet homeownership goals because some of the goals were not achieved for reasons beyond their control and some information on prospective strategies that would address the issue was discussed. We clarified the report, where appropriate, in response to these comments.

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## Background

GPRA is intended to shift the focus of government decisionmaking, management, and accountability from activities and processes to the results and outcomes achieved by federal programs. New and valuable information on the plans, goals, and strategies of federal agencies has been provided since federal agencies began implementing GPRA. Under GPRA, annual performance plans are to clearly inform the Congress and the public of (1) the annual performance goals for agencies' major programs and activities, (2) the measures that will be used to gauge performance, (3) the strategies and resources required to achieve the performance goals, and (4) the procedures that will be used to verify and validate performance information. These annual plans, issued soon after transmittal of the president's budget, provide a direct linkage between an agency's longer term goals and mission and day-to-day activities.<sup>3</sup> Annual

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<sup>3</sup>The fiscal year 2002 performance plan is the fourth of these annual plans under GPRA.

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performance reports are to subsequently report on the degree to which performance goals were met. The issuance of the agencies' performance reports, due by March 31, represents a new and potentially more substantive phase in the implementation of GPRA—the opportunity to assess federal agencies' actual performance for the prior fiscal year and to consider what steps are needed to improve performance and reduce costs in the future.<sup>4</sup>

HUD encourages homeownership by providing mortgage insurance through its Federal Housing Administration (FHA) for about 7 million homeowners who otherwise might not have qualified for loans, as well as by managing about \$508 billion in insured mortgages and \$570 billion in guarantees of mortgage-backed securities. It also makes housing affordable for about 4 million low-income households by insuring loans for multifamily rental housing and providing rental assistance. In addition, it has helped to revitalize over 4,000 localities through community development programs. To accomplish these missions, HUD relies on the performance and integrity of thousands of mortgage lenders, contractors, property owners, public housing agencies, communities, and others to administer its programs.

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## Assessment of HUD's Progress and Strategies in Accomplishing Selected Key Outcomes

This section discusses our analysis of HUD's performance in achieving the selected key outcomes and the strategies the agency has in place, particularly in regard to strategic human capital planning and information technology, for accomplishing these outcomes.<sup>5</sup> In discussing these outcomes, we have also provided information drawn from our prior work on the extent to which the agency provided assurance that the performance information it is reporting is credible.

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### Increased Homeownership

HUD's performance report shows that progress was made toward the outcome of increasing homeownership. For example, HUD reports that it

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<sup>4</sup>The fiscal year 2000 performance report is the second of these annual reports under GPRA.

<sup>5</sup>Key elements of modern human capital management include strategic human capital planning and organizational alignment; leadership continuity and succession planning; acquiring and developing staffs whose size, skills, and deployment meet agency needs; and creating results-oriented organizational cultures.

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exceeded its goals in fiscal year 2000 for increasing the national homeownership rate to 67.7 percent (compared with the target of 67.5 percent), homeownership in central cities to 51.9 percent (compared with the target of 51.0 percent),<sup>6</sup> and the homeownership rate among families with incomes below the area median to 52.2 percent (compared with the target of 52 percent). However, HUD's contribution to the achievement of those goals is not clear because (1) HUD's discussion of external factors that affect homeownership in its annual performance and strategic plans said that HUD has limited control of homeownership rates, and (2) HUD did not achieve its goals for some of its programs that support homeownership. The report does not explain why HUD believes it contributed significantly to the overall increase in homeownership, even though it did not meet its programmatic goals.

In discussing the external factors, the report noted that the record homeownership rate depended in large part on the overall economy, including low interest rates. This statement is consistent with others HUD has made that it is not a dominant player in the homeownership market and has limited impact on whether some national goals are met, including the homeownership goal. Nevertheless, the report, also states that HUD's programs contributed significantly to the achievement of the increases in homeownership; how this contribution is distinct from the significant external factors that affect achievement of this goal remains unexplained.

HUD did not achieve some of its specific programmatic goals. For example, the report cites the Federal Housing Administration (FHA), Government National Mortgage Association (Ginnie Mae), Community Development Block Grant (CDBG), and HOME Investment Partnership Grant programs as supporting HUD's homeownership objectives, but HUD did not achieve its goals related to those programs.<sup>7</sup> For example, HUD reported that FHA did not meet its planned goal of processing 1.26 million single-family mortgage endorsements; actual performance was 921,283.

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<sup>6</sup>Central cities are those cities within larger metropolitan areas that meet certain population and employment characteristics established by the Bureau of the Census.

<sup>7</sup>FHA insures single-family and multifamily mortgages; Ginnie Mae guarantees the payment of principal and interest to investors of privately issued securities backed by pools of federally insured loans; CDBG funds local community development programs for housing and economic development needs; and HOME Investment Partnership program provides assistance to renters and first-time homebuyers, builds state and local capacity to carry out affordable housing programs, and expands the capacity of nonprofit organizations to develop and manage housing.

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Furthermore, Ginnie Mae did not achieve its goal to securitize 95 percent of single-family FHA and Veterans Administration loans; actual performance was 86.2 percent of eligible loans. The report does not attempt to explain the connection between these results, which were less than expected, and the reported increase in the overall homeownership rates.

HUD's reasons for not achieving some of its goals are inadequate. For example, the reasons given for not meeting some goals appear to conflict with those cited for achieving other homeownership goals. That is, HUD states that part of the reason for not achieving the projected number of endorsements is higher interest rates that reduced demand for FHA-insured loans; lower interest rates were given as a reason for meeting the national homeownership goals stated above. Although this apparent discrepancy may be related to the timing of the analyses or methodological issues, the presentation of the information appears inconsistent, and this inconsistency is not explained.

Other data necessary to evaluate HUD's contributions toward achieving the outcome are not currently part of the report. For example, the report says that the homeownership goal was met, but it does not mention the specific numeric target of 2.8 million new homeowners since 1998 that the fiscal year 2000 performance plan said was needed to achieve an increase in the national homeownership goal or how HUD's 2.2 million mortgage endorsements processed since fiscal year 1998 relate to that target. The report also does not present information on factors that negatively affect homeownership, such as defaults or foreclosures, that would help evaluate whether home purchasers are able to retain the homes they buy using HUD's programs and therefore the extent to which HUD's programs contribute to increasing homeownership. The report did not make an overall assessment of the impact of its fiscal year 2000 performance on fiscal year 2001 performance; however, it shows that HUD revised some goals for fiscal year 2001 on the basis of its fiscal year 2000 performance.

In the performance report, HUD discusses the programs that support its overall homeownership objective but does not discuss its strategies, plans, actions, or time frames for achieving its unmet goals for fiscal year 2000. The fiscal year 2002 performance plan discusses strategies to increase homeownership that are clear and reasonable and generally describe the intended result. The performance plan also includes strategies that HUD will pursue to help ensure home retention and encourage responsible homeownership, which are important to sustaining homeownership levels,



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although no specific goals or measures were established related to those initiatives.

Neither the performance report nor the performance plan discussed strategic human capital management or information technology issues as part of HUD's strategies to address the specific outcome. The performance plan lists various evaluations and research related to the strategic goal to increase the availability of affordable housing, but it does not specifically discuss how those evaluations will be used to identify or improve strategies in the future. This outcome is related to one of HUD's management challenges, and additional information is discussed under the section on management challenges in this report and in appendix I.

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## Increased Affordable, Decent, and Safe Rental Housing

HUD's performance report indicates that it made some progress toward the outcome of increasing affordable, decent, and safe rental housing. However, the report shows that HUD was less successful in demonstrating that it was able to increase the supply of affordable housing relative to the number of people who need it most. The report shows that in fiscal year 2000 HUD was most successful in achieving the output goals that show the units inspected or properties developed. For example, HUD met its goals to (1) increase the share of units that meet physical and financial standards by 1 percent (83 and 85 percent for public housing and multifamily development respectively, exceeding the fiscal year 1999 level of 62.5 and 77.3 percent); (2) develop properties for elderly and disabled households (completing initial closings for 278 properties, exceeding the goal of 226);<sup>8</sup> and (3) process multifamily mortgages (endorsing 579 mortgages exceeding the goal of 400). HUD was less successful in demonstrating results that show how its actions increased the overall quantity of affordable and decent housing compared with the number of low-income households. For example, HUD has five outcome measures related to improving the ratio of affordable units to low-income people, but HUD was either unsuccessful in meeting the targets or does not yet have the data to show the results for the measures. HUD said in the report that the physical quality of rental housing has improved greatly, but it also said that housing has become less affordable overall, particularly for poor households. HUD states that for extremely low-income households, the

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<sup>8</sup>However, in the fiscal year 2000 performance plan as issued, this measure was to bring 200 Section 202 (elderly) projects to initial closing. No information was provided on why the change was made and whether HUD would have achieved its original goal to process 200 Section 202 projects.

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need for affordable rental housing has actually increased. The explanations given for not meeting the goals varied but were generally reasonable given the significant external factors that also affect achievement of this outcome. For example, two factors that HUD cited were grantees' changing priorities and rent increases exceeding inflation due to the strong economy.

The reliability of HUD's data is generally not discussed for any outcome in the performance report; a footnote indicates that data issues are discussed in the annual performance plan. In the introduction to the report, HUD acknowledges that the performance data collection systems and controls over data quality remain areas that needs attention. While we recognize that performance data quality is an area that HUD is addressing, this information does not yet increase our confidence regarding the reliability of the performance data, as discussed in previous reports.<sup>9</sup> We also identified one example where the performance data cited in the report might not be accurate, based on our work in the rental assistance area. The preliminary results of our ongoing work with the Office of Multifamily Housing Assistance Restructuring (OMHAR) indicates that HUD may not have achieved the results it reported for the mark-to-market program in fiscal year 2000. The mark-to-market program, administered by OMHAR, seeks to retain affordable rental housing and reduce Section 8 assistance costs by reducing excessive rental subsidies paid to assisted properties and restructuring their mortgages where appropriate.<sup>10</sup> Under a measure that "seventy-five percent of multifamily mortgages restructured under the Mark to Market program are closed within 12 months of PAE [participating administrative entities] acceptance for restructuring," HUD reports that during fiscal year 2000 OMHAR exceeded the target by completing deals on 494 properties, or 82.7 percent of the 597 properties eligible for restructuring under the program. However, our analysis of data provided by HUD indicates that OMHAR completed only four mortgage

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<sup>9</sup>*Results Act: Observations on the Department of Housing and Urban Development's Fiscal Year 1999 Annual Performance Plan* (GAO/RCED-98-159R, June 5, 1998); *Observations on the Department of Housing and Urban Development's Fiscal Year 2000 Performance Plan* (GAO/RCED-99-208R, July 20, 1999); and *GAO/RCED-00-211R*, June 30, 2000.

<sup>10</sup>HUD contracts with private property owners to provide housing rental assistance, called Section 8 project-based assistance, on behalf of eligible low-income households. HUD also provides Section 8 vouchers, through public housing agencies and other state and local designated entities, that enable low-income families to seek housing in the private housing market in the neighborhoods of their choice.

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restructurings during fiscal year 2000. Two of these mortgage restructurings were completed within 12 months of acceptance by the participating administrative entities for restructuring.<sup>11</sup> OMHAR may be including rent restructurings (deals in which it reduces property rents to market levels but does not carry out a mortgage restructuring) and rent comparability reviews (activities in which OMHAR determines whether current property rents are above or below market) as part of the totals it is reporting.

The performance report includes an overall discussion of the general strategies, programs, and external factors that affect HUD's efforts to ensure that affordable rental housing is available for low-income households; but it does not discuss strategies, plans, or timeframes for achieving the specific unmet goals for fiscal year 2000. The report discusses evaluations that HUD has done to improve utilization of Section 8 housing vouchers, accuracy of rent determinations for assisted households, and accuracy of subsidy amounts paid for assisted households. However, the information would have been more useful if HUD specifically discussed how the results of the evaluations would be used to identify or improve strategies for achieving the goals in the future. HUD reports that the studies indicate that (1) further attention by management is necessary to better utilize Section 8 housing vouchers; and (2) HUD continues to pay excess rental subsidies, partly because tenant income is underreported and partly because of errors made by public housing agencies, owners, and agents responsible for program administration.

The fiscal year 2002 annual performance plan discusses HUD's strategy to strengthen its existing programs and improve usage of Section 8 housing vouchers and public housing capital funds. The specific strategies HUD outlines in the plan support these objectives and the measures related to the outcome, although they do not discuss specific tools or risk assessments that HUD will use to implement the strategies and achieve the objectives. The performance plan refers to HUD's coordination with other

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<sup>11</sup>A participating administrative entity is an entity OMHAR has contracted with to carry out property restructurings under mark-to-market on behalf of the federal government. As of May 7, 2001, OMHAR had contracts with 35 participating administrative entities, including 26 public agencies (such as state and local housing finance agencies) and 9 nonpublic entities. Among other things, the responsibilities of the participating administrative entities include determining appropriate rent levels, restructuring mortgage loans, underwriting new or modified loans, and managing the closing process.

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federal agencies to increase affordable rental housing. However, HUD does not discuss specific coordination activities or other agencies' specific contributions to HUD's goals. Neither the performance report nor the fiscal year 2002 performance plan discusses human capital and information technology as strategies to achieve this outcome. This outcome is related to one of HUD's management challenges, and additional information is provided under the section on management challenges in this report and in appendix I.

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## Improved Community Economic Vitality And Quality of Life

HUD's performance report indicates that the Department made some progress toward achieving this outcome. For example, HUD reports that it met its goals of increasing jobs and reducing poverty in cities, increasing capital in underserved neighborhoods,<sup>12</sup> reclaiming brownfields (contaminated commercial and industrial land), reducing crime, and targeting grant funds to the most needy. HUD also noted a decrease in the number of "doubly burdened" cities during fiscal year 2000.<sup>13</sup> The number of cities that were experiencing both a population loss and a high poverty rate declined from 1 in 7 in 1999 to 1 in 8 in 2000. However, the report also shows problems with the performance measures and data collected for specific programs that make it difficult for the reader to determine what HUD contributed to the achievement of the goals. HUD reports it does not have data for one performance measure and thus could not report results; two performance measures were related to programs that were never authorized, and HUD did not report results. Even for one measure that HUD achieved, the report notes that the measure was not a reliable indicator of progress because it fluctuates from year to year. HUD reports that half of the selected measures related to this outcome were revised or deleted in future performance plans. Some of the reasons given include that the measures were revised or deleted to eliminate comparisons between cities and suburbs or to improve performance measurement, such as to track performance over a 3-year period to obtain a more reliable indicator of progress. Additionally, HUD's discussion of external factors notes the significant challenges it faces with this outcome. For example,

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<sup>12</sup>HUD defines an underserved neighborhood in metropolitan areas as census tracts with either a minority population of at least 30 percent and median family income below 120 percent of the metropolitan area median or median family income at or below 90 percent of the area median income regardless of minority population percentage.

<sup>13</sup>The report defines a "doubly burdened" city as one that experiences unemployment rates that are 50 percent above the national average accompanied by either a population loss of 5 percent since 1980 or poverty rates of 20 percent or higher.

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the economic issues mitigating against this outcome, such as mismatches in the location of jobs and available workers, concentrations of poverty, and grantees' discretionary use of block grants (they may choose to use the funds in other ways that may not contribute to specific HUD objectives), may affect the results that HUD is able to achieve. The report does not discuss how those problems will be mitigated.

For this outcome, the discussion of the measures more clearly acknowledges data reliability issues and show HUD's efforts to address them. This may be a result of a report from the OIG in March 2001 that identified several weaknesses in performance data from HUD's community development programs, among others, which support much of HUD's effort to improve community economic vitality and quality of life.<sup>14</sup> For example, the OIG reported that projections and estimates were used to formulate program performance measurements rather than actual grantee accomplishments.

In discussing the strategies that support this outcome, the performance report discusses the contributions of some of HUD's major programs, such as CDBG, Empowerment Zones/Enterprise Communities, FHA, and the Public Housing Drug Elimination Grant Program. As previously discussed, however, it does not address whether and how unmet goals will be achieved. As noted, this may be because about half of the measures will be significantly revised or deleted in future years. The fiscal year 2002 performance plan discusses various strategies to promote relationships with communities, other federal agencies, industry groups, and nonprofit organizations to achieve this outcome, but it does not describe specific tools or means of doing this. For example, the plan includes some strategies that state HUD will encourage communities to address economic issues. The plan does not describe how HUD will do this, even though it notes that HUD's direct impact on specific and measurable results is somewhat limited. Neither the performance report nor the fiscal year 2002 performance plan discusses human capital and information technology as strategies to achieve this outcome. The plan does not discuss the use of evaluations to identify or improve strategies for achieving future goals.

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<sup>14</sup>*Review of HUD's Internal Controls over Fiscal Year 1999 Annual Performance Data*, Office of Inspector General (2001-FO-0004, Mar. 28, 2001).

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## Less Fraud, Waste, and Error in HUD's Programs

As we reported last year, HUD's strategic and annual performance plans do not contain strategic goals or objectives for reducing fraud, waste, and error in HUD programs.<sup>15</sup> However, HUD has a strategic goal to "ensure public trust" to improve its operations and address its management challenges. Under this strategic goal, HUD includes performance measures to achieve more accurate subsidy payments, better data, and better quality housing, thereby reducing fraud, waste, and error. HUD's progress toward meeting the outcome of less fraud, waste and error during fiscal year 2000 is not clear based on the results for these measures. The performance report shows that HUD met its targets for some significant measures, such as increasing the share of assisted housing units that met HUD housing standards, the number of grantees reviewed, and the reporting of tenant information in a data system. However, the report also shows that HUD did not achieve its goals for other measures, such as setting baselines for reducing the share of public housing and Section 8 units managed by troubled housing authorities, reviewing single-family appraisals, and developing a data quality plan. This information may result in a somewhat more negative view of HUD's accomplishments in reducing fraud, waste, and error than is warranted because the 1-year assessment does not consider the progress that HUD has made in recent years to overcome some of its long-term management deficiencies, and its plans for future improvements.

The performance report generally provides reasonable explanations of why some goals were not met and how they would be revised in the future. For example, although we report that HUD did not meet several performance measures based on the targets set in the fiscal year 2000 performance plan, HUD reports that it considers the targets "substantially met" because the performance was very close to the target. HUD reported that it "substantially" met the targets for determining the number of public housing units managed by troubled housing authorities, determining the number of multifamily properties with substandard financial management, and matching tenant income data to tax and Social Security records. The report states that these were one-time measures to track the implementation of specific processes designed to improve HUD operations. Because implementation was successful, HUD states that these measures would not be reported on in the future. Additionally, the plan states that some of the measures were dependent upon two of HUD's assessment activities that were delayed, one of which was delayed at the

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<sup>15</sup> [GAO/RCED-00-211R](#), June 30, 2000.

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request of the Congress. The report noted that over half of the performance measures used in fiscal year 2000 would be significantly revised or deleted in 2001 or 2002.

The performance report discusses strategies to achieve HUD's goal of ensuring public trust and links some of those strategies to the achievement of specific performance measures related to this outcome. It does not, however, specifically address plans and time frames for achieving unmet goals. As stated above, several of the unmet measures were one-time measures to track implementation of systems or processes. A substantial number of others will be revised in future years on the basis of performance or data issues, so there would be no need to discuss strategies for achieving these goals. The performance report includes some human capital and information technology strategies under its discussion of external factors that affect achievement of its efforts to restore public trust. The report notes that HUD will continue implementing a resource estimation and allocation process to aid in managing workload, improve risk-based monitoring techniques, continue to push for simplification of rental subsidy program requirements, and work with HUD managers to ensure that systems requirements and data quality controls are properly established.

The discussion of strategies contained in the 2002 performance plan related to this outcome are somewhat better than those for the other outcomes because they discuss more specific steps to be taken. They also include some actions the Department plans to take if public housing authorities, lenders, or others do not comply with policy. However, we noted that the plan could be improved by including strategies, goals, or measures that would specifically address the prevention and detection of fraud, waste, and errors in HUD programs. This would also include a risk assessment process to identify the most vulnerable programs and institute internal controls to prevent and detect occurrences.<sup>16</sup> The performance plan's strategies also address some of HUD's human capital issues, such as training employees, completing its resources estimation and allocation process, developing a long-term staffing strategy to deal with expected retirements, and continuing to develop a performance-based appraisal

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<sup>16</sup>For examples and case illustrations of information that federal agencies should consider when developing strategies and planning and implementing actions that will help prevent and detect fraud and errors, refer to GAO's exposure draft, *Strategies to Manage Improper Payments: Learning from Public and Private Sector Organizations* (GAO-01-703G, May 2001).

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process. However, the plan does not include measures to determine the effectiveness of those strategies. The strategies also include efforts to improve HUD's information technology, such as improving equipment for higher productivity, improving data quality, and increasing citizen access to information through electronic means such as HUD's Web site. Both we and the OIG have raised concerns about HUD's strategic human capital management and information technology issues, and additional information is provided under the section on management challenges in this report and in appendix I. The annual performance plan lists a number of significant evaluations planned or currently under way pertaining to the goal of ensuring public trust, such as an evaluation of aspects of HUD's 2020 management reform and efforts to improve the quality of assisted housing. The studies will be useful for evaluating HUD's overall progress in improving its operations and customer service.

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## Comparison of HUD's Fiscal Year 2000 Performance Report and Fiscal Year 2002 Performance Plan With the Prior Year Report and Plan for Selected Key Outcomes

For the selected key outcomes, this section describes major improvements or remaining weaknesses in HUD's (1) fiscal year 2000 performance report in comparison with its fiscal year 1999 report, and (2) fiscal year 2002 performance plan in comparison with its fiscal year 2001 plan. It also discusses the degree to which the agency's fiscal year 2000 report and fiscal year 2002 plan address concerns and recommendations by the Congress, GAO, the OIG, and others.

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## Comparison of Performance Reports for Fiscal Years 1999 and 2000

HUD revised its performance report for fiscal year 2000 consistent with the new format developed for its annual performance plans beginning in fiscal year 2000, which included revised goals, objectives, and many new measures. This improved the linkage to the annual performance plan and, therefore, the readability and clarity in presentation of the fiscal year 2000 performance report, compared with the fiscal year 1999 report. HUD combined the performance report with its fiscal year 2000 annual accountability report, which consolidated a substantial amount of important information on HUD's operations and activities into one document. The report summarizes HUD accomplishments for each strategic goal and includes discussions of the major programs and the most significant performance measures, general strategies, and external



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factors that affect the achievement of the strategic goals. The report also includes a summary of the management problems identified by the OIG and HUD's response to each of the remaining concerns; however, the report includes only a limited discussion of the current management challenges we identified. In our opinion, the performance report could be further improved if it included a discussion of resource issues, an overall assessment of HUD's progress toward achieving its strategic goals for the fiscal year, and a more specific assessment of the completeness and reliability of performance data.

The performance report did not provide an overall assessment of HUD's progress toward achieving its strategic goals and objectives for fiscal year 2000. The report shows that HUD did not achieve many of the results expected, but no assessment was made on the significance of not achieving the desired results to the overall achievement of the strategic goals. As discussed above, where targets were not met, usually no explanation was provided of what or whether anything could be done to meet those goals in the future. For example, even in cases where the rise of interest rates or other economic factors were given as reasons for not achieving the desired results, a more comprehensive assessment would have been useful to either identify any other underlying problems or demonstrate that the result was reasonable given the influence of external factors. In general, some insight into what kinds of problems were experienced would be useful to the Congress and other decisionmakers as they consider HUD's budget and other requests.

Although the performance report made some additional improvements in discussing data issues, more needs to be done to improve the usefulness of the performance information. The Reports Consolidation Act of 2000 requires that the GPRA performance report contain an assessment of the completeness and reliability of performance data.<sup>17</sup> In the introduction to the performance report, HUD states that it needs to focus on improving performance data collection systems and controls over data quality, particularly in the formula and discretionary grant programs. However, the report does not provide an overall assessment of the performance data. The HUD OIG reviewed a sample of the performance data reported in 1999 and found problems with its reliability.<sup>18</sup> We noted examples where the

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<sup>17</sup>Reports Consolidation Act of 2000, Public Law 106-531, Nov. 22, 2000.

<sup>18</sup>*Review of HUD's Internal Controls over Fiscal Year 1999 Annual Performance Data*, Office of Inspector General (2001-FO-0004, Mar. 28, 2001).

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fiscal year 2000 performance report seemed to address the concerns raised by the OIG. For example, the report articulates performance measures for which the results are “snapshots” rather than performance for the complete fiscal year, and are estimates rather than actual performance. However, we identified discrepancies in other information in the report, suggesting that more work remains to be done. For example, as in the OMHAR example discussed above, the data in the report do not agree with other data HUD provided to us. We identified other performance measures in the report where the methodology for charting progress changed or a baseline that was supposed to have been set was not, but no information was provided on why such changes were made or why they were significant.

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### Comparison of Performance Plans for Fiscal Years 2001 and 2002

The fiscal year 2002 performance plan continues to improve over the 2001 performance plan. HUD revised its fiscal year 2002 performance plan to reflect the updated strategic plan for fiscal years 2000 to 2006, adding one new strategic objective and revising several others to cover the Department’s activities more fully. The plan also includes additional information on the Department’s resources, expands the discussion of evaluations, creates a new type of measure that will be used for monitoring purposes only,<sup>19</sup> and includes information on actions to address HUD’s human capital challenges. For example, the plan refers to research being done on the outcomes in areas of concentrated CDBG investment that will be used to shape the performance measures. The plan also adds a measure that will track implementation of HUD’s resource estimation and allocation process. However, we noted that the discussion of how resources were linked to the achievement of performance goals, the credibility of performance data, and the coordination strategies could be improved. Additionally, goals or measures for HUD’s management challenges would be useful for tracking HUD’s progress toward resolving those specific issues.

In its performance plan, HUD includes a table for each strategic goal that shows the programs, budget authority, and staff levels that HUD estimates

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<sup>19</sup>HUD established a small number of “monitors” of certain measures. According to HUD, monitors measure and report results that the department deems important for achieving strategic goals and objectives like other indicators. Unlike other indicators, however, monitors will not have performance goals attached because the results are nearly entirely controlled by external factors or by the discretionary decisions of the Department’s partners.

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generally support the achievement of that goal. Although this table is a step toward showing how budgetary and human resources relate to achieving goals, the information becomes somewhat confusing because HUD also includes a second table for the underlying strategic objectives that conflicts with the first table. For example, one table shows that HUD allocated \$1.585 billion of CDBG funds to the overall strategic goal of increasing the availability of decent, safe, and affordable housing in fiscal year 2002. A table for an underlying objective to increase homeownership shows that an estimated \$4.802 billion of CDBG funds is allocated to achieve the homeownership objective in fiscal year 2002. Hence, it seems that the underlying objective requires a larger portion of the budget than the primary strategic goal that it supports. A footnote for this table indicates that allocations at the underlying objective level are not currently available; but the table would have been clearer if HUD either used the estimated allocations by program that were in the first table, or left out the information completely until better estimates can be developed.

As discussed above, HUD has made it a priority to address the reliability of its performance data. Although the plan continues to improve the discussion of limitations to the performance data and discusses HUD's plans to improve its data quality, data credibility is an area we will continue to monitor. HUD also notes that it has plans to review concerns about performance measure data in response to a recommendation by the National Academy of Public Administration. In a July 1999 study of HUD's compliance with GPRA, the Academy recommended that HUD develop a plan that outlines a clear, departmentwide data quality goal with minimally acceptable data quality standards for key elements, such as timeliness, reliability, and accuracy.<sup>20</sup> The Academy noted that the HUD's quality assurance approach did not have data quality standards, a plan for verifying data quality, or assigned roles and responsibilities for those involved in the quality work.

We have previously discussed with HUD the usefulness of including goals and performance measures in the performance planning documents that show HUD's progress toward resolving its management challenges. The 2002 annual performance plan takes steps toward this by adding measures

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<sup>20</sup>*GPRA in HUD: Changes for the Better*, A Report by the National Academy of Public Administration for Congress and the Department of Housing and Urban Development, July 1999.

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and strategies that address some aspects of the management challenges, but goals or measures that focus on the specific challenges that we and the OIG have identified would be useful. For example, we have identified HUD's single-family insurance program and rental assistance programs as high risk. Measures designed to address HUD's progress on the issues related to the challenges, such as monitoring lenders, overseeing appraisers, managing single-family properties, or reducing excess subsidy payments, would be useful in assessing HUD's progress toward resolving the management challenges.<sup>21</sup>

The one area in which HUD appears to have weakened since the 2001 performance plan is in its coordination with other federal agencies. The 2002 performance plan does not discuss some coordination activity that was in the 2001 report. For example, under the objective to increase homeownership, HUD does not mention its coordination with the Department of Agriculture's (USDA) or the Veterans Administration's housing programs. Also, we reported on the overlap between USDA's Rural Housing Service and FHA's single and multifamily programs and suggested that Congress consider requiring the two agencies to examine the benefits and costs of merging those programs.<sup>22</sup> In its response to our report, HUD disagreed with the suggestion to merge the single family programs but said opportunities to improve delivery of rural housing services should be explored. These activities are not discussed in the performance plan. Additionally, some indicators that were previously identified as potential interagency indicators are not so designated in the 2002 performance plan. The plan does not provide information on HUD's reason for dropping these items or discuss the impact, if any, on HUD's achievement of its goals. We have also reported on the importance of

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<sup>21</sup>We have issued several reports related to HUD's management challenges that include open recommendations HUD has not yet resolved. See our correspondence to the Secretary on *Status of GAO's Recommendations to the Department of Housing and Urban Development* (GAO-01-741R, May 11, 2001). These reports include: *Single-Family Housing: Stronger Oversight of FHA Lenders Could Reduce HUD's Insurance Risk* (GAO/RCED-00-112, Apr. 28, 2000); *Single-Family Housing: Stronger Measures Needed to Encourage Better Performance by Management and Marketing Contractors* (GAO/RCED-00-117, May 12, 2000); *Mortgage Financing: FHA's Fund has Grown, but Options for Drawing on the Fund Have Uncertain Outcomes* (GAO-01-460, Feb. 28, 2001); *Public Housing: HUD Needs Better Information on Housing Agencies' Management Performance* (GAO-01-94, Nov. 9, 2000); and *Benefit and Loan Programs: Improved Data Sharing Could Enhance Program Integrity* (GAO/HEHS-00-119, Sept. 13, 2000).

<sup>22</sup>*Rural Housing: Options for Optimizing the Federal Role in Rural Housing Development* (GAO/RCED-00-241, Sept. 15, 2000).

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interagency coordination on community growth issues and that opportunities exist for federal agencies to improve their coordination.<sup>23</sup> We reported that the large number of federal programs that fund economic development activities and the large number of federal agencies that administer the programs can reduce communities' flexibility in pursuing reinvestment projects. HUD's programs were among those most frequently mentioned as helpful to community revitalization, but the plan makes limited mention of HUD's coordination activity with other agencies on these interagency issues. In general, even where coordination activity is discussed, the plan does not discuss the specific contribution of other agencies to the achievement of HUD's goals.

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## HUD's Efforts to Address its Major Management Challenges Identified by GAO

We have identified two governmentwide high-risk areas: strategic human capital management and information security.<sup>24</sup> Regarding human capital, we found that the fiscal year 2000 performance report does not explain HUD's progress in resolving human capital challenges. However, it does provide information on the steps HUD is taking to implement a resources estimation and allocation process and develop a framework to begin addressing human capital issues. We found that HUD's fiscal year 2002 annual performance plan does not include specific goals or measures to address strategic human capital management; however, it has three performance measures pertaining to human capital issues. These three measures are that (1) HUD employees are more satisfied with the Department's performance and work environment, (2) HUD will implement the new resource estimation and allocation process, and (3) HUD will improve the diversity of the workforce. With respect to information security, the agency's performance report discusses the status of a new Enterprise Security Program that the Chief Information Officer is creating. The report states that this program will provide adequate security measures and safeguards to protect information resources from unauthorized access, use, modification, and disclosure. Although the performance report does not specifically address this high-risk area, it states that during fiscal year 2000, HUD developed policies, wrote a handbook, and created a training program for a Critical Infrastructure Assurance program. We found that HUD's performance plan does not have

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<sup>23</sup>*Community Development: Local Growth Issues – Federal Opportunities and Challenges* (GAO/RCED-00-178, Sept. 6, 2000).

<sup>24</sup>*Major Management Challenges and Program Risks: A Governmentwide Perspective* (GAO-01-241, Jan. 2001).

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goals and measures associated with information security, although we have had open recommendations on this issue since 1994.<sup>25</sup>

In January 2001, we reported on three long-standing, major management challenges facing HUD.<sup>26</sup> We concluded that continued improvements were needed to reduce HUD's single-family insurance risk and to ensure that HUD's rental housing assistance programs are used effectively and efficiently. We designated these two programs as high-risk areas for HUD. We also reported that HUD needs to resolve its information and financial management systems and human capital issues. In reviewing HUD's fiscal year 2000 annual performance report, we found that the report does not provide goals or measures for addressing the management challenges we identified, but it does state that the high-risk areas are a top priority for the Secretary. The report also includes some measures that relate to the issues we have raised in the single-family, rental assistance, and financial management systems and human capital areas. For example, the report has measures to increase the use of loss mitigation tools to reduce the number of foreclosures (which reduces FHA's insurance costs) and to increase the net recovery on sales of single-family real estate owned. However, the report does not include goals or measures related to other aspects of the single-family program that we have been concerned about, such as lender oversight. Two of these management challenges are related to outcomes discussed in this report (increased homeownership and increased affordable, decent, and safe rental housing).

HUD's fiscal year 2002 performance plan does not contain goals and measures to resolve the three management challenges we identified; however, the plan contains some measures related to aspects of the single-family, rental assistance, and information and financial management and human capital issues. For example, for the rental assistance management challenge, the public trust strategic goal includes measures to increase the share of assisted housing units that meet physical and financial standards and to improve tenant income verification. The performance plan also includes a separate section under its public trust strategic goal that discusses HUD's management challenges. The section discusses the management challenges identified by us and states that addressing the

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<sup>25</sup>*HUD Information Resources: Strategic Focus and Improved Management Needed* (GAO/AIMD-94-34, Apr. 14, 1994).

<sup>26</sup>*Major Management Challenges and Program Risks: Department of Housing and Urban Development* (GAO-01-248, Jan. 2001).

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long-standing management challenges is a top priority for the Secretary in fiscal year 2002. It also discusses HUD's recent progress and the activities planned or being implemented that are expected to yield future improvements. The plan notes that the Department has corrective action plans to address the management challenges identified by us. It also states that HUD will use the performance measures established for its strategic goal of ensuring public trust to track the results of its management improvements and identify where further improvements are needed, although it does not identify those measures. However, as discussed above, strategies, goals, or measures specific to resolving the management challenges would improve the plan. See appendix I for a summary of the major management challenges and related measures.

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## Conclusions

HUD prepared a performance report that is much improved from last year and made additional improvements to its fiscal year 2002 performance plan. Generally, the documents are understandable and well organized. However, HUD did not achieve all of the performance measures for the four key outcomes. For some performance measures that were achieved, specifically for the homeownership outcome, the report did not clearly explain how HUD's programs contributed to achieving its goals, given the significant external factors discussed. The report would be more useful to Congress and other decisionmakers if it more clearly articulated HUD's overall progress toward achieving its goals, including identifying the specific contributions it makes distinct from external factors or other contributors. HUD has continued to revise and improve the performance plan; but the quality of strategies for achieving goals varied by outcome and generally did not include strategies to mitigate the external factors, resource information was somewhat confusing, and some coordination discussions from prior years were eliminated. The performance plan would benefit from further discussion of HUD's strategies for achieving the goals; the estimated resources needed to achieve the goals; and coordination with external partners, specifically other federal agencies. Although the plan and report discuss HUD's management challenges and contain some performance measures that pertain to those challenges, developing specific performance measures and strategies would serve to focus HUD's efforts to improve its management and ensure accountability in its programs. The performance plan would be more useful if it included goals, measures, and strategies to address HUD's management challenges and its efforts to reduce fraud, waste, and error, along with a risk assessment process to identify the programs most vulnerable to fraud, waste, and error. Finally, the report includes statements about HUD's plans and efforts to improve the accuracy of its data. To increase

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confidence that the results HUD reported accurately and fairly represent its achievements and to fully comply with the Reports Consolidation Act, the performance report should contain a specific assessment of the completeness and reliability of HUD's performance data.

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## Recommendations for Executive Action

We recommend that the Secretary of Housing and Urban Development consider the following improvements to future performance plans and reports:

- Include sufficient information in the performance report to evaluate HUD's accomplishments, including an overall assessment of HUD's progress toward achieving its goals, identification of HUD's specific contributions to achieving the goals, and determination of the contributions of other entities to HUD's goals.
- Continue improving the performance plan by better estimating the resources necessary to achieve the goals, articulating strategies to achieve the goals and mitigate the problems encountered, and further discussing coordination strategies with other federal agencies.
- Include sufficient goals, measures, and strategies to demonstrate HUD's efforts and progress in addressing its management challenges. In support of HUD's efforts to continue improving its management, future performance plans would benefit from the inclusion of goals, measures, or strategies to assess the prevention and detection of fraud, waste, and error, as well as a risk assessment process to identify the most vulnerable programs.
- Include an assessment of the completeness and reliability of performance data that clearly articulates the implications of relying on that data to evaluate HUD's achievements.

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## Scope and Methodology

As agreed, our evaluation was generally based on the requirements of GPRA; the Reports Consolidation Act of 2000; guidance to agencies from the Office of Management and Budget (OMB) for developing performance plans and reports (OMB Circular A-11, Part 2); previous reports and evaluations by us and others; our knowledge of HUD's operations and programs; our identification of best practices concerning performance planning and reporting; and our observations on HUD's other GPRA-related efforts. We also discussed our review with the HUD's OIG and obtained written comments from HUD. The agency outcomes that were used as the basis for our review were identified by the Ranking Minority Member of the Senate Committee on Governmental Affairs as important mission areas for the agency, and three of the four reflect the outcomes for HUD's major programs or activities. The major management challenges



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confronting HUD, including the governmentwide high-risk areas of strategic human capital management and information security, were identified by us in our January 2001 Performance and Accountability Series and High-Risk Update. HUD's OIG identified its top management challenges in December 2000. We did not independently verify the information contained in the performance report and plan, although we did draw from our other work for assessing the validity, reliability, and timeliness of HUD's performance data. We conducted our review from April 2001 through June 2001 in accordance with generally accepted government auditing standards.

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## Agency Comments

We provided HUD a draft copy of this report for review and comment. HUD generally agreed with the information presented in our report. Overall, HUD found the report to be balanced and useful for both recognizing the significant progress that the Department has made and pointing out areas where more progress is needed. In general, HUD concurred with the need for further analysis of the Department's role in meeting specific performance indicators, as well as larger strategic objectives and goals, specifically in the homeownership area, and with the need to develop more representative performance measures, without necessarily increasing the total number of indicators. While agreeing with most of the report, HUD identified some areas that it believed should be clarified. For example, HUD disagreed with our statement that it generally did not provide strategies for achieving its unmet homeownership goals because some of the goals were not achieved for reasons beyond their control and some information on prospective strategies that would address the issue was discussed. We clarified the report to address most of the issues that were raised by HUD. In addition, we incorporated HUD's technical comments where appropriate. HUD's comments and our detailed responses are in appendix II.

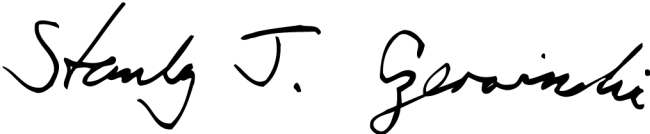
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As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days after the date of this letter. At that time, we will send copies to appropriate congressional committees; the Secretary, Department of Housing and Urban Development; and the Director, Office of Management and Budget. Copies will also be made available to others upon request.

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If you or your staff have any questions, please call me at (202) 512-7631. Key contributors to this report were Shirley L. Abel, Steven L. Cohen, Jeannie B. Davis, Mark H. Egger, David G. Gill, Danielle P. Hollomon, Bonnie J. McEwan, Sally S. Moino, John T. McGrail, and Kirk D. Menard.

Sincerely yours,

A handwritten signature in black ink that reads "Stanley J. Czerwinski". The signature is written in a cursive style with a large, prominent 'S' at the beginning.

Stanley J. Czerwinski  
Director, Physical Infrastructure Issues

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# Appendix I: Observations on the Department of Housing and Urban Development's Efforts to Address Its Major Management Challenges

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The following table identifies the major management challenges confronting the Department of Housing and Urban Development (HUD), which includes the governmentwide high-risk areas of human capital and information security. The first column lists the management challenges that we and/or HUD's Office of Inspector General (OIG) have identified. The second column discusses the progress, as discussed in its fiscal year 2000 performance report, HUD made in resolving its challenges. The third column discusses the extent to which HUD's fiscal year 2002 performance plan includes performance goals and measures to address the challenges that we and HUD's OIG identified. We found that HUD's performance report discusses the management challenges identified by the OIG, as authorized by the Reports Consolidation Act, but does not specifically discuss the agency's progress in resolving the management challenges we identified in January 2001, other than to note that they were a high priority for HUD management. Of the agency's 15 management challenges, its performance plan had measures that were directly related to 10 of the challenges, had measures that were indirectly applicable to 2 challenges, and had no goals or measures related to 3 other challenges.

**Appendix I: Observations on the Department of Housing and Urban Development's Efforts to Address Its Major Management Challenges**

**Table 1: Major Management Challenges**

Major management challenge	Progress in resolving major management challenges as discussed in the fiscal year 2000 performance report	Applicable goals and measures in the fiscal year 2002 performance plan
<p><b>GAO-designated governmentwide high risk</b></p>		
<p><u>Strategic Human Capital Management:</u> GAO has identified shortcomings at multiple agencies involving key elements of modern human capital management, including strategic human capital planning and organizational alignment; leadership continuity and succession planning; acquiring and developing staffs whose size, skills, and deployment meet agency needs; and creating results-oriented organizational cultures.</p>	<p>The report does not specifically discuss this governmentwide management challenge. However, in the context of its strategic goal to "Ensure Public Trust," the report discusses HUD's resource estimation and allocation process (REAP), which will establish a baseline for estimating resources and making staff allocations. HUD has experienced some delays with this process, but completion is expected by December 2001. The report includes a goal that HUD's workforce and partners are empowered, capable, and accountable for results, which includes measures of employee satisfaction and capabilities, overall workforce diversity, and the number of women and minority employees at and above the GS-13 level. HUD reported that employee satisfaction improved, and the representation of women and minorities at GS-13 and above exceeded the goal; however, HUD did not achieve its diversity targets.</p>	<p>The performance plan does not include specific goals or measures to address the human capital issues identified by GAO. However, the plan includes three measures related to HUD's human capital activities:</p> <ul style="list-style-type: none"> <li>• HUD employees will become more satisfied with the Department's performance and work environment.</li> <li>• The REAP initiative will be fully implemented and will establish a baseline for estimating resource requirements and prioritizing staffing allocations by program and office</li> <li>• HUD continues to improve the workforce to reflect the nation's diversity by increasing the representation of underrepresented groups by 0.3 percentage point.</li> </ul>
<p><u>Information Security:</u> Our January 2001 high-risk update noted that the agencies' and governmentwide efforts to strengthen information security have gained momentum and expanded. Nevertheless, recent audits continue to show federal computer systems are riddled with weaknesses that make them highly vulnerable to computer-based attacks and place a broad range of critical operations and assets at risk of fraud, misuse, and disruption.</p>	<p>The report does not specifically discuss this governmentwide management challenge. However, the report states that as part of the financial management systems activities led by HUD's Chief Information Officer during fiscal year 2000, HUD initiated a Critical Infrastructure Protection support effort, developed an enterprise security architecture strategy, and developed an Enterprise Security Remediation Program Plan. The report states that the program is intended to provide safeguards to protect from unauthorized access, use, modification, and disclosure. However, the report also notes that as of the end of fiscal year 2000, there were management concerns and material nonconformance that carried over from fiscal year 1999 in departmental financial management systems. In particular, according to the independent auditor's report, there were weaknesses related to the need to improve (1) controls over HUD's computing environment, (2) administration of personnel security operations, (3) reliability and security of critical financial systems. In addition, on October 31, 2000, the OIG issued a report entitled <i>HUD Entity-wide Security Program</i>, which stated that HUD's security program needs significant</p>	<p>The performance plan does not include specific goals or measures to address the information security high-risk area.</p>

**Appendix I: Observations on the Department of Housing and Urban Development's Efforts to Address Its Major Management Challenges**

Major management challenge	Progress in resolving major management challenges as discussed in the fiscal year 2000 performance report	Applicable goals and measures in the fiscal year 2002 performance plan
<b>GAO-designated major management challenge</b>	improvement and that HUD has not placed the appropriate emphasis on information systems security. Specifically, the report noted that risks are not adequately assessed or managed; security plans are either not documented or not kept current; incident tracking, reporting, and response capability needs improvement; an effective training and awareness program is not in place; and HUD's Critical Infrastructure Protection Plan is inadequate and out of date. We have reported open recommendations on computer security at HUD since 1994.	
<u>Continued improvements needed to reduce HUD's single-family mortgage insurance risk:</u> To reduce financial risks, HUD's FHA needs to continue to improve its management over home mortgage loans made by private lenders that it insures against nearly all losses. While FHA has accumulated capital reserves of about \$16.6 billion on insured home loans valued at about \$454 billion, we estimate that FHA lost about \$1.9 billion during fiscal year 2000 on the sale of foreclosed loans that it had insured. We reported that HUD has opportunities to strengthen FHA's management and internal controls that include strengthening the loan origination process; promoting better monitoring of lenders, appraisers, and property management and marketing contractors; and ensuring that sufficient staff with the right skills are available to carry out FHA's home loan mission.	The report includes a paragraph on HUD's high-risk issues and states that these issues are among the highest priorities. The report does not include goals or measures to resolve HUD's management challenges. However, the report includes four measures that directly relate to issues raised by GAO. HUD has two measures to assist in managing losses that may be experienced in HUD's single-family programs. For the measure to increase returns on real estate owned, HUD did not achieve the expected amount of return. For another measure, to increase the use of alternatives to foreclosure (and thereby reduce losses to the insurance fund), HUD reported that it substantially exceeded the goal. The report also includes a measure to hold appraisers accountable for high-quality appraisals by having HUD electronically review single-family appraisals submitted for endorsement. HUD did not achieve the numeric goal for reviewing appraisals; but it reports that this was a one-time effort to implement the system, and as such HUD considered it successful. The report also includes a measure that FHA's insurance fund will meet the mandated reserve levels. HUD reports meeting this goal.	The performance plan does not include specific goals or measures to resolve the single-family high-risk area identified by GAO. However, the plan includes four related measures, two of which are directly related, on issues GAO has raised about reducing HUD's single-family insurance risk: <ul style="list-style-type: none"> <li>• The share of FHA mortgage defaults resolved by loss mitigation alternatives to foreclosure increases by 2 percentage points to 38.1 percent.</li> <li>• The FHA Mutual Mortgage Insurance Fund meets congressionally mandated capital reserve targets.</li> <li>• The net recovery of FHA real estate owned sales increases by 1 percentage point to 64.8 percent.</li> <li>• The share of FHA single-family appraisals determined to be unacceptable is reduced.</li> </ul>
<u>Continued improvements needed to ensure HUD's rental housing assistance programs are used effectively and efficiently:</u> Because HUD is able to serve fewer than half of the households who are eligible for assisted housing, it is essential that it ensure that these programs are used efficiently and effectively to maximize the number of households that can be assisted. Significant opportunities still	The report includes a paragraph on HUD's high-risk issues, but it does not include specific goals, measures, or strategies to resolve the rental assistance management challenge. However, the report includes 19 measures that directly relate to the issues associated with this management challenge – improving the quality of housing and ensuring that accurate benefits are paid only to eligible persons. HUD reported it did not meet 11 of the stated goals, or the results were unclear; set baselines for 3 measures; and	The performance plan does not include specific goals or measures to resolve the rental assistance high-risk area. However, the plan includes 23 measures, some of which are directly related, on various aspects of ensuring that quality housing is provided to eligible households that pay the correct amount of rent. For example: <ul style="list-style-type: none"> <li>• Among units occupied by low-income households, the share containing</li> </ul>

**Appendix I: Observations on the Department of Housing and Urban Development's Efforts to Address Its Major Management Challenges**

<b>Major management challenge</b>	<b>Progress in resolving major management challenges as discussed in the fiscal year 2000 performance report</b>	<b>Applicable goals and measures in the fiscal year 2002 performance plan</b>
<p>exist to reduce excess subsidy payments estimated to total over \$3 billion for the last 4 years by ensuring that only eligible families occupy units and that they pay the correct rents; ensure that providers of rental housing maintain housing that is decent, safe, sanitary and in good condition; and be certain that HUD has the capital resources and controls needed to detect and address problems that exist in its rental housing assistance programs.</p>	<p>met 5 of the performance targets.</p>	<p>threats to health and safety decreases by 0.2 percentage points to 5.5 percent by 2003.</p> <ul style="list-style-type: none"> <li>• The share of units that meet HUD-established physical standards increases by 3 percentage points to 73.9 percent of public housing units and 89.5 percent of assisted multifamily units.</li> <li>• The share of HUD-assisted properties observed with exigent health and safety or fire safety deficiencies decreases by 1.0 percentage point for public housing and by 0.6 percentage point for assisted multifamily housing.</li> <li>• As part of the effort to eliminate 100,000 units of the worst public housing, demolish 13,000 units during fiscal year 2002.</li> <li>• The share of tenant-based Section 8 units managed by troubled housing agencies decreases by 5 percentage points.</li> <li>• The share of households for which rent determinations are correct increases by 15 percent from fiscal year 2000 levels for public housing, project-based Section 8 and tenant-based Section 8 by fiscal year 2003.</li> </ul>
<p><u>Resolution needed for information and financial management systems and human capital issues:</u> HUD has determined that its financial management systems do not meet all of its needs and has plans under development to address this issue. We reported that HUD must continue to focus on improving its information technology management processes to help ensure success in systems initiatives across the Department. HUD must also resolve a number of human capital issues, such as adjusting workload to consider implementation of the new centers, complete actions to measure workload, and staff its programs adequately.</p>	<p>The report includes a paragraph on HUD's high-risk issues, but it does not include specific goals, measures, or strategies to resolve the information systems and human capital management challenge. However, the report includes measures that address certain aspects of these issues. It describes systems measures to highly rate automated systems, develop a Performance Data Quality Assurance Plan, and ensure that each program office has an approved data quality plan. HUD reports that during fiscal year 2000, it was necessary to modify these goals, and the performance expected was generally not achieved. For example, HUD decided to focus on mission-critical data systems, rather than on program offices. As a result, the program offices do not have approved data quality plans. The report states that the quality assurance planning process was not sufficiently refined to warrant independent assessment, and the Department instead decided to independently assess the</p>	<p>The performance plan does not include specific goals or measures to address the information and financial management systems and human capital management challenge. However, the plan includes five measures related to these issues:</p> <ul style="list-style-type: none"> <li>• HUD employees become more satisfied with the Department's performance and work environment.</li> <li>• The REAP initiative will be fully implemented and will establish a baseline for estimating resource requirements and prioritizing staffing allocations by program and office.</li> <li>• HUD continues to improve the workforce to reflect the nation's diversity by increasing the representation of underrepresented groups by 0.3 percentage point.</li> <li>• HUD automated data systems are rated highly for usefulness, ease of</li> </ul>

**Appendix I: Observations on the Department of Housing and Urban Development's Efforts to Address Its Major Management Challenges**

Major management challenge	Progress in resolving major management challenges as discussed in the fiscal year 2000 performance report	Applicable goals and measures in the fiscal year 2002 performance plan
<b>OIG-designated major management challenges</b>	<p>usability, usefulness, and life-cycle costs of HUD data systems, rather than track user perceptions of quality. Also, under a discussion of its financial management accountability, HUD reports on progress made in improving its financial management systems. For human capital issues, the report states that HUD's employee responses to the National Partnership for Reinventing Government survey improved, and the representation of women and minorities at GS-13 and above exceeded the goal; however, HUD did not achieve its diversity targets.</p>	<p>use, and reliability.</p> <ul style="list-style-type: none"> <li>• During fiscal year 2002, eight mission-critical data systems will be assessed (for data quality) and those systems will be certified that critical data elements conform to the program's business rules by the end of fiscal year 2003.</li> </ul>
<p><b>HUD 2020 Management Reforms:</b> The OIG reports that many aspects of the plan are far from completion and that some of the critical aspects of the plan, such as staffing and financial management systems, are still under development. The OIG cites a HUD sponsored study which noted that the transition is happening slowly and there is a pervasive tension between centralized control and local empowerment. Moreover, since HUD has never performed an adequate cost benefit analysis, there is no assurance that changes being implemented will fundamentally improve the financial and program operations of the Department.</p>	<p>As required by the Reports Consolidation Act, the report included a summary of the OIG's assessment of the management challenges facing HUD. It also included HUD's response to each of those issues, which states that progress has been made and some improvements were realized. However, HUD notes that further efforts are needed to institutionalize those changes and ensure consistency in operations. The report does not include goals or measures that directly relate to assessment of the effectiveness of the 2020 Management Reform plan or the financial management and staffing issues raised by the OIG. However, the report includes a strategic goal to "ensure public trust in HUD" that includes measures for certain aspects of the reforms, such as for measuring the activities of the new centers, as discussed below.</p>	<p>The performance plan does not include specific goals or measures to address this management challenge identified by the OIG. However, the plan includes a strategic goal to "ensure public trust" with an objective that HUD and its partners effectively deliver results to customers. The plan states that this objective articulates the Department's continued efforts to address its management challenges and to make HUD a high-performing agency, which were the general purposes of the 2020 Management Reform Plan.</p>
<p><b>Financial Management Systems:</b> The OIG has reported concerns about HUD's efforts to improve and integrate its financial management systems, including integrating FHA's general ledger into HUD's departmentwide systems. Most recently, the OIG was concerned about HUD's decision to restart its efforts to integrate its systems with a \$1.45 million purchase of software licenses because the Department had not performed adequate study and analysis before making this procurement decision. The OIG recommended that HUD delay development efforts for the purchased software package until adequate systems development</p>	<p>HUD states that it established a core standard general ledger that is inefficiently integrated with HUD's accounting and business processes. To overcome these inefficiencies and continue improving its systems, the Chief Financial Officer has developed a new financial management systems vision that is currently under review. The report does not include goals or measures that directly relate to the OIG's concerns about HUD's integrated financial management systems and FHA's general ledger. We do not consider the performance measure to "obtain clean audit opinions" to relate to the information and financial management systems aspect of the management challenge. This is because a clean audit opinion is not an indication of adequate data systems. In HUD's consolidated financial statement audit, the OIG reported that HUD</p>	<p>The performance plan does not include specific include goals or measures to address this management challenge. However, the plan includes one measure that indirectly relates to the management challenge:</p> <ul style="list-style-type: none"> <li>• During FY 2002, eight mission-critical data systems will be assessed (for data quality) and those systems will be certified by the end of fiscal year 2003.</li> </ul>

**Appendix I: Observations on the Department of Housing and Urban Development's Efforts to Address Its Major Management Challenges**

<b>Major management challenge</b>	<b>Progress in resolving major management challenges as discussed in the fiscal year 2000 performance report</b>	<b>Applicable goals and measures in the fiscal year 2002 performance plan</b>
<p>studies and analysis are conducted and the Enterprise Architect Plan is issued and considered.</p>	<p>remains noncompliant with Federal Financial Management Improvement Act requirements for federal financial management systems and Standard General Ledger at the transaction level.</p>	
<p><u>Real Estate Assessment Center (REAC)</u>: The OIG reports that HUD is placing heavy reliance on its new REAC, which consolidated physical and financial assessments into one organization. The OIG notes that the property inspections are costing millions of dollars annually, information systems to support this operation are costly, industry participants have raised serious questions about the reliability of the assessments, and there are concerns that the results of the assessments are not being used effectively.</p>	<p>HUD states that it is retooling some aspects of REAC's assessment systems to better ensure the quality and consistency of assessments. The report does not directly address the OIG's stated concerns about the costs of REAC's work and use of the information obtained. However, the report includes six measures that relate to the implementation of some of REAC's assessment activities. HUD reports it set the baseline for one performance measure, as planned. For five other performance measures, HUD did not achieve the specific targets set; however, it states the goals were "substantially met" and implementation was successful. The report states that the five measures will no longer be reported.</p>	<p>The performance plan does not include specific goals or measures to address this management challenge.</p>
<p><u>Departmental Enforcement Center (DEC)</u>: The vision for the DEC was to combine non-civil rights compliance enforcement actions for all of HUD's program offices into one organization. However, the Center has not been working to capacity. Nearly all the focus has been on multifamily programs and HUD has not given the DEC critical delegation authority crucial to tougher enforcement actions. Without this authority, the Center may never realize the independence or autonomy planned. The OIG believes that the Department needs to be more aggressive in taking administrative actions and that the DEC needs to be fully operational.</p>	<p>The report does not include specific goals or measure related to this management challenge. HUD states that the DEC's resources have been targeted to the most egregious cases of compliance deficiencies in the program areas with the highest risk. The report states that other programs are viewed as lower risk. HUD states it is pursuing improved performance measurement and reporting to hold program partners accountable.</p>	<p>The performance plan includes one measure directly related to the management challenge:</p> <ul style="list-style-type: none"> <li>The DEC will improve management by multifamily housing partners by reducing the multifamily cases in the DEC as of September 30, 2001, by 80 percent, by closing 75 percent of all cases received in FY 2002 that have been in the DEC for 180 days and by completing all cases received in FY 2002 and closed in FY 2002 in an average of 180 days.</li> </ul>
<p><u>Troubled Agency Recovery Centers (TARCs)</u>: The OIG found that the TARCs were working at less than 10 percent of their planned capacity, due to delays in implementation of an assessment system and no clear direction from headquarters on data or procedures to assist field staff in determining whether a housing authority should be designated as "troubled" and forwarded to the TARCs for servicing.</p>	<p>HUD states that delays in implementing the new Public Housing Assessment System (PHAS) rule have delayed full deployment of the TARCs. The report does not include goals or measures that directly relate to the capacity of the TARCs, but the report includes five measures related to the identification and management of troubled public housing authorities. According to the performance report, HUD did not achieve any of these measures during fiscal year 2000.</p>	<p>The performance plan includes one measure directly related to the management challenge:</p> <ul style="list-style-type: none"> <li>The number of public housing units managed by troubled housing agencies that are assigned to a TARC as of October 1, 2001, decreases by 15 percent by September 30, 2002.</li> </ul>



**Appendix I: Observations on the Department of Housing and Urban Development's Efforts to Address Its Major Management Challenges**

Major management challenge	Progress in resolving major management challenges as discussed in the fiscal year 2000 performance report	Applicable goals and measures in the fiscal year 2002 performance plan
<p><u>Use of Staff Resources:</u> The OIG reported that HUD still lacks the capability to support resource allocation. HUD's implementation of its new REAP process is currently behind schedule. The OIG also stated that even if the studies are completed in a fair and unbiased manner, they will not address how the information will be used in determining staff allocations or adjustments. The OIG remains concerned whether the results will be used to better utilize staff resources and notes that budget limitations may further limit HUD's ability to properly re-distribute its resources if needed.</p>	<p>HUD states that it has developed a "Succession Planning" document that in combination with its REAP study will provide the basis for a Workforce Plan that will enable HUD to address its human capital needs. The report does not include goals or measures that directly relate to the resource estimation and allocation issues raised by the OIG.</p>	<p>The performance plan contains one measure directly related to the issue raised by the OIG in the staff resources management challenge:</p> <ul style="list-style-type: none"> <li>The REAP initiative will be fully implemented and will establish a baseline for estimating resource requirements and prioritizing staffing allocations by program and office.</li> </ul>
<p><u>FHA Single-Family Loan Origination Practices:</u> Procedures and practices pertaining to HUD's single-family loan origination program have undergone considerable change, particularly in the last 5 years. Changes have included significant changes in loan underwriting requirements, transfer of loan production and program monitoring from HUD staff to contractors. The OIG has reported on problems in FHA's reviews of lender underwriting, property appraisals, monitoring of lenders, oversight of pre-endorsement contractors, and the accuracy of information in the automated tracking system.</p>	<p>HUD states that it has accepted improvements made by both GAO and the OIG to reduce risk in its single-family insurance program. HUD states it is proposing a change to the National Housing Act to confirm its authority to terminate a lender's approval to originate mortgages when the lender have a high level of early defaults. HUD states that an improved control structure is in place, but the remaining challenge is to ensure operational consistency and apply appropriate sanctions. The report does not include goals or measures that directly relate to the lender monitoring issues associated with this management challenge.</p>	<p>The performance plan does not include specific goals or measures to address this management challenge. However, the plan has one measure related to the management challenge:</p> <ul style="list-style-type: none"> <li>The share of FHA single-family appraisals determined to be unacceptable is reduced.</li> </ul>
<p><u>Single-Family Section 203(k) Program:</u> An OIG audit of this program found investors and nonprofit borrowers abusing the program. The program as designed encouraged risky property deals, land sale and refinance schemes, overstated property appraisals, and phony or inflated fees.</p>	<p>HUD states that it will consider eliminating one part of the program because it is a high-risk area that is not critical to the achievement of HUD's core mission. The report includes one measure to increase the number of single-family properties using the program by 4 percentage points. HUD did not achieve the goal, attributing the failure to increased interest mortgage rates and the weakening of the housing market. However, HUD also noted that tightening program procedures to reduce programmatic abuses reduced market acceptance of the program, and it is reviewing options about the future direction of the program.</p>	<p>The performance plan does not include specific goals or measures to address the issues associated with this management challenge; however, it contains one measure indirectly related to the management challenge:</p> <ul style="list-style-type: none"> <li>Maintain the number of single-family properties rehabilitated under Section 203(k).</li> </ul>
<p><u>Single-Family Property Disposition Program:</u> An OIG audit of HUD's management and marketing contractors found the contractors did not maximize the return to the</p>	<p>HUD states that it is considering recommendations made by GAO and the OIG to make further improvements in the program. The report includes one measure on increasing the recovery of single-family properties; however,</p>	<p>The performance plan includes one measure directly related to this challenge:</p> <ul style="list-style-type: none"> <li>The net recovery of FHA real estate owned sales increases by 1</li> </ul>

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<p>mortgage insurance fund or maintain properties in a manner that strengthened neighborhoods and communities. The OIG found problems with all seven contracts reviewed and noted that outsourcing of the disposition program resulted in reduced returns to the insurance fund of about \$188 million. These losses were attributed to poor sales performance and substantially increased costs.</p>	<p>HUD did not achieve its expected performance due to programs that removed properties from inventory more quickly but that also reduced the sales price.</p>	<p>percentage point to 64.8 percent.</p>
<p><u>Section 8 Program Administration:</u> The OIG reported that HUD is not adequately administering the Section 8 Rental Assistance program. HUD continued to experience problems in accounting and budgeting funds, pay excessive subsidies, provide inadequate monitoring of contract administrators, inadequately oversee its own Section 8 portfolio, and have difficulty in timely identifying unneeded excess funds remaining on expired project-based Section 8 contracts.</p>	<p>HUD states that it recognizes that this is a material management control weakness, and it is developing a comprehensive corrective action plan. The report included five measures for fiscal year 2000 that relate to some aspects of the Section 8 issues raised by the OIG, such as improving accuracy of Section 8 subsidies. HUD did not achieve its goal to set the baselines in fiscal year 2000 for four of the measures as planned primarily due to delays in implementing SEMAP, but it states that baselines will be set in fiscal year 2002. For the fifth measure, HUD did not achieve its goal to increase the accuracy of rent determinations during fiscal year 2000 because the baseline was not set until fiscal year 2000, rather than during 1999 as planned.</p>	<p>The performance plan does not include specific goals or measures to address this management challenge, but it does include measures on improving management of Section 8 and ensuring that accurate subsidies are paid:</p> <ul style="list-style-type: none"> <li>• Utilization of Housing Choice Vouchers increases by 2 percentage points from the fiscal year 2000 level to 94 percent.</li> <li>• By helping housing agencies issue rental vouchers in timely fashion, HUD decreases the share of the program administered by housing agencies with substandard lease-up rates by 10 percent.</li> <li>• The household-weighted average SEMAP score increases.</li> <li>• The share of tenant-based Section 8 units managed by housing agencies that score highly for determination of rent reasonableness increases.</li> <li>• The share of households for which rent determinations are correct increases by 15 percent from FY 2000 levels for public housing, project-based Section 8 and tenant-based Section 8 by FY 2003.</li> </ul>

# Appendix II: 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

June 21, 2001

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

Dear Mr. Czerwinski:

Thank you for the opportunity to comment on the General Accounting Office's (GAO) draft report, "Department of Housing and Urban Development: Status of Achieving Key Outcomes and Addressing Major Management Challenges." Overall, we find the GAO review of our Annual Performance Plans (APP) and new Performance and Accountability Report (PAR) to be balanced and useful, both recognizing the significant progress that the Department continues to make and providing commentary and direction on areas where more progress is needed.

We also appreciate GAO's recognition in its "Results in Brief" comments on page 4: "HUD has made improvements in its fiscal year 2000 performance report and 2002 annual performance plan over prior years' reports. The performance report is in the new format HUD developed for its annual performance plans beginning with fiscal year 2000. This improved the report's readability and clarity. . . HUD combined its fiscal year 2000 performance report with its fiscal year 2000 accountability report, which consolidated a substantial amount of important information into one document that also helps with understanding the scope of HUD's activities."

We would underscore the importance of your observation that "in general, HUD's strategies for achieving [these] outcomes appear to be clear and reasonable." Correct outcome goals and appropriate strategies are fundamental components of meeting the goals of the Government Performance and Results Act (GPRA).

We appreciate your findings of improved efforts including, "The fiscal year 2002 performance plan includes an expanded discussion of evaluations, more information on the limitations and advantages of data, and information on HUD's human capital challenges."

The Department has embraced the GPRA process. Although we clearly are making progress, we agree that more improvements are necessary. We believe that a careful reading of the APP and a clearer understanding of several significant indicators will demonstrate that the Department is working to improve discussions of resources, coordination strategies, and management challenges while also making improvements in several data aspects.

We would like to provide the following comments and suggestions, which might afford Congress, the public and other readers a better understanding of our current and future GPRA efforts.

*GAO states on page 2, "Neither the performance report nor the performance plan discuss strategic human capital management or information technology issues as part of HUD's strategies to address the specific outcomes."*

See comment 1.

This statement seems to contradict in part the statement on page 4 that "The fiscal year 2002 performance plan includes...information on HUD's human capital challenges." Specifically, the PAR references employee training and equipment and information systems on page 41; discusses workforce empowerment and efficiency on page 42; and discusses data issues on pages 43-44. The PAR on page 195 reports on outcome indicator 5.1.2, which is workforce related, and on pages 202-203 reports on indicators 5.1.k.3 and 5.1.9, which are data indicators.

The FY 2002 APP discusses human resources issues and data issues in the "Overview" discussions on pages 188-189 for Strategic Goal 5: "Ensure the Public Trust." The "Means and Strategies" discussion on page 189 also includes multiple references to workforce and data issues. In addition, an extensive discussion of data issues *and strategies* is included on pages 218-221 under "Major Management Challenges." Human capital issues are also discussed under "Major Management Challenges" on page 224. Finally, page 195 of the APP includes an indicator that measures the implementation of the Resource Estimation and Allocation Process (REAP), which will provide a foundation for HUD's long-term human capital strategies.

As currently written, the GAO report may give the impression that the Department is not fully immersed in these issues and is not dealing with the strategic aspect of data and human resource issues. The above references demonstrate that the Department is seriously engaged in these issues and additional development and implementation of strategies will continue for several years.

*GAO comments on pages 3 and 4 regarding "Planned outcome: Less fraud, waste, and error in HUD programs," states, "HUD's progress toward reducing fraud, waste and error is not clear. The performance report provides reasonable strategies to improve HUD's operations, some of which are linked to specific performance measures but the report does not generally address plans and timeframes for achieving unmet goals...However, strategies, goals, or measures that specifically address fraud, waste, and errors, along with a risk assessment process to identify the most vulnerable programs would be useful in future plans."*

See comment 2.

The Department believes that it would be fruitful to collaborate with the GAO on the appropriate scope of the issues and indicators that should be involved under the rubric of fraud, waste and abuse. The Department believes that it is addressing this issue in a very significant and strategic way and with specific indicators. There are several places in HUD's 2000 APR and 2002 APP that discuss HUD's strategic development of automated remote monitoring systems that support risk-based targeting of program monitoring and enforcement activity to improve program compliance and performance. In addition, HUD's efforts to improve the public housing and assisted housing programs, including the operations of REAC, the EC and TARC, will reduce fraud, waste and abuse and improve the lives of 4.5 million families. Numerous indicators directly or indirectly cover these organizations and efforts, including 5.1.2 and 5.1.3, which measure our partners/clients satisfaction; 5.1.4, which measures units managed by TARC; 5.1.5, which measures troubled housing among tenant-based units; 5.1.6, for units related to substandard financial management; 5.1.7, for units meeting HUD physical standards; and indicators 5.1.7 and 5.1.j, for improved PHAS and SEMAP scores.

The APP also directly addresses our single biggest error issue through indicator 5.1.j and 5.1.k, involving income verification, and 5.1.L involving correct rent determinations. In addition, as referenced earlier, the Department recognized concerns in the FHA single-family program and included a new indicator 5.1.r involving reductions in the number of unacceptable appraisals.

The above efforts are both specific and have appropriate timetables. However, the Department agrees with the GAO that there is more that can be reported using the considerable amount of information available on the nature of HUD's risks and HUD's efforts and plans to better control those risks. We welcome assistance in this crucial area.

*GAO states on page 3 that "HUD generally did not provide strategies for achieving unmet fiscal year 2000 goals".*

See comment 3.

HUD believes that throughout the PAR we did endeavor to discuss what we are doing or will do in areas where we did not meet our goals. For example, for Strategic Goal number 1, we achieved the vast majority of our goals. For several that we did not achieve, the reason was that it was primarily beyond our span of control (e.g., interest rates), or as an example, in the case of 1.1.a, it was due to a change in the marketplace for Ginnie Mae activities. An example of a prospective strategy is our reference to the American Dream Downpayment Fund to increase homeownership rates for first time homebuyers.

*GAO states on page 7, "The report does not explain why HUD believes it contributed significantly to the overall increase in home ownership, even though it did not meet its programmatic goals."*

See comment 4.

HUD concurs that there is need for further analysis of the Department's role in meeting specific performance indicators as well as larger Strategic Objectives and Goals. This area of research is very complex and would require significant effort and time. It would probably serve the Congress and the public for GAO to underscore this point if you are in agreement.

*GAO, on page 11, does not concur with our reporting on OMHAR activity for FY 2000. GAO states, "This information in the performance report does not increase our confidence regarding the reliability of the performance data, as discussed in previous reports."*

See comment 5.

Per the discussion presented by GAO, this is an issue of data presentation using a different definition that, as GAO suspected, includes rent reductions. We have a difference in measurement but we do not believe that the data are incorrect. More importantly, we do not believe that GAO should use this single example to raise questions regarding the level of overall data reliability in the latest PAR and APP. GAO has not audited this data. The Department acknowledged that there were data issues per the IG audit of our FY 1999 Accountability report and we have responded to all of the findings in that report with specific corrective actions. In addition, the FY 2001 and 2002 APPs detail our ongoing data quality efforts, which are already achieving results.

*GAO comments that there are a number of indicators for which data were not available or baselines had not been established and GAO characterized HUD as not achieving our goals.*

See comment 6.

Data may not be available for a number of reasons having nothing to do with falling short of a goal. For instance, we did not report either a success or failure in terms of reducing the number of troubled PHAs (indicator 5.1.4, page 196 of the PAR) because we established a baseline using PHAS data even though Congress placed limitations on the use of PHAS data. We do not agree with the characterization on page 15 of the GAO report, "...HUD did not achieve its targets for...Section 8 units managed by troubled housing authorities..." because the results will be prospectively determined. Another example is on page 40 of the report, where GAO states that HUD did not achieve the goals for any of the five Section 8 measures. In fact, some of these are in abeyance until SEMAP becomes operational. Our view is that these results are best described as to be determined rather than as a failure to achieve our goals. GAO should not blur the distinction between failure to achieve performance goals and failure to obtain data necessary to show whether or not goals were in fact achieved.

*GAO recommends on page 21, "...adding measures and strategies that reflect management challenges, additional goals or measures on the specific areas that we and the Inspector General have identified would be useful. For example, we have identified HUD's single-family insurance program and rental assistance programs as high risk."*

See comment 7.

The recommendation to expand strategies and indicators for single-family insurance and rental assistance programs exemplifies the complexity of capturing the program activities and measuring performance. We made a focused effort to cover these areas with numerous indicators, including 4 single-family indicators and 23 assisted housing indicators, which are listed on pages 32-35 of the GAO report. The Department agrees that further progress is warranted. We would like to collaborate with GAO and others to improve the focus of our indicators without necessarily increasing the total number.

Appendix II: Comments from the Department  
of Housing and Urban Development

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*GAO states on page 36, "The report does not include goals or measures that directly relate to the 2020 Management Reform plan."*

See comment 8.

We believe that several indicators are direct measurements of the 2020 Management Reform plan and many more indicators are indirect measures of the Plan. Examples of direct measures include those that track the implementation of REAC (5.1.e.2, 5.1.f.3, 5.1.h.2, and 5.1.j.2), measures that use REAC data (1.3.3, 1.3.4, 1.3.f and 1.3.g); measures applicable to the Enforcement Center (EC) (1.2.o) and the Troubled Agency Recovery Centers (TARCs) workload (5.1.4); and measures of employee satisfaction and capability (5.1.1) and partner satisfaction and capability (5.1.2).

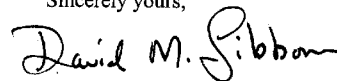
*GAO states on page 37, "We do not consider the performance measure to 'obtain clean audit opinions' to relate to the information and financial management systems aspects of the management challenge. This is because a clean audit opinion is not an indication of an adequate data system."*

See comment 9.

The Department recognizes that obtaining a clean audit is a limited measure that does not broadly certify that all financial and data systems are at the desired level. However, obtaining a clean audit remains a governmentwide goal that many agencies have failed to achieve. It is also a regular private industry requirement. Most importantly, we believe that this indicator directly supports the Strategic Goal in which it is found, "Ensure the Public Trust." Finally, without over-emphasizing the connection, we do believe that there is relevance between obtaining a clean audit and having accurate financial systems that meet important minimum standards.

The Department would like to thank the GAO again for the continuing constructive input on our GPRA activities. We also want to thank you again for the recognition that HUD is continuing to make important improvements in both measuring and accomplishing substantive program performance goals.

Sincerely yours,



David Gibbons  
Director  
Office of Budget

The following are GAO's comments on the Department of Housing and Urban Development's letter dated June 21, 2001.

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## GAO's Comments

1. To address HUD's concerns that our statements about strategic human capital management and information technology strategies appear contradictory, we clarified the report to emphasize that strategic human capital management and information technology were not discussed as strategies related to the programmatic outcomes selected for this review. However, we recognize they are discussed as part of HUD's efforts to address its management challenges and achieve its goal of ensuring public trust as shown in other parts of the performance report.
2. We believe the report recognizes that HUD has included strategies and performance measures that address aspects of reducing fraud, waste, and error in its programs, and our analysis of HUD's progress included most of the measures HUD cites in its letter. Our intent was not to say that HUD did not have such measures but that our analysis indicated that the results did not present a clear picture of HUD's progress toward achieving this outcome. Our analysis of the selected measures, including most of those mentioned in HUD's comments, showed that for all but five, HUD set baselines, modified the measure, did not achieve the results expected, or will not set baselines until fiscal year 2002 so that performance related to those measures can not yet be assessed. We clarified the report to emphasize that HUD's progress toward reducing fraud, waste, and error is not clear based on the results reported as of fiscal year 2000. However, as stated in our report, we believe that the strategies, goals, and measures, (and therefore the plan) could be improved by specifically including a focus on preventing and detecting fraud and errors. Additionally, this would be in line with our requester's interest in seeing an outcome related to reducing fraud, waste, and error in HUD programs. This report contains a reference to our exposure draft on this subject; we have agreed to discuss with HUD ways of developing goals and measures that more specifically measure HUD's progress in reducing fraud, waste, and error in future performance plans.
3. We recognize that in some places the performance report notes where unmet measures would be revised or deleted, or other actions would be taken in the future, although we did not specifically list all of those situations. However, there are also places where unmet goals provide the opportunity to evaluate HUD's performance and future actions,



particularly where significant external factors affect its ability to achieve its goals as planned. These external factors do not release HUD from the responsibility to develop strategies to mitigate the extent of those external factors or to determine whether or how the goals and measures should be revised to compensate for those factors. In fact, the extensive external factors the Department faces (also see comment 4) in trying to achieve its goals make it especially important that HUD have these strategies to address its unmet goals, and evaluations may be useful for that purpose. This comment specifically refers to our observation about the homeownership outcome for which HUD notes the external factors are particularly complex.

4. We agree that the issue of determining the impact of an agency's role in achieving goals for which there are many external partners and economic influences is complex. We have agreed to discuss this issue with HUD, and we also encourage the Department to consult with OMB and the Congress on the most appropriate strategies and means for the Department to measure the impact of its programs. (See also comment 3.)
5. We appreciate the Department's concerns about accurately portraying data reliability issues, and we clarified the discussion to (1) emphasize that HUD also recognizes that more work remains to be done in this area, and (2) this is one example of our concerns. However, we did not change the example because the performance report does not explain the substantial difference between what the measure says it will achieve and the results reported. The report is written in such a way that only those familiar with this program would detect the discrepancy and understand the possible reason for the difference. Until we are assured that the performance reports show results based on accurate data for all the key outcomes and that the results presented are a fair representation of HUD's activities, we will continue to report concerns about the reliability of the performance data.
6. We clarified the report, where appropriate, to make it clear in the examples cited that we are not saying that HUD did not achieve specific numeric goals but that HUD did not achieve its goals to set baselines in fiscal year 2000 as planned. For the purposes of our analyses, we considered a goal to set a baseline by the same criteria as other measures that were to achieve a specific numeric target. We believe this is an important issue because until baselines are set, HUD cannot measure its progress toward achieving its goals.

7. The intent of our observation was not necessarily to recommend that HUD develop more measures but develop goals and measures that focus more on resolving the specific management challenges. We clarified the report to emphasize that the goal is to develop measures that effectively address the specific management challenges. We have agreed to consult with HUD on possible ways of developing goals and strategies that reflect the management challenges; but we also suggest that HUD consult with the Congress and OMB on this issue, particularly since OMB's Circular A-11 requires goals that address agency management challenges. Such goals, according to OMB, often will be expressed as milestone events for specific remedial steps.
8. We clarified our report to note that the performance report includes measures that relate to aspects of HUD's 2020 Management Reform, such as for the new centers, but it generally does not include goals that relate to the specific issues raised by the OIG.
9. Our observation on HUD's performance measure to obtain clean audit opinions was included in the report to explain why we did not include this measure in our analysis of HUD's efforts to address its management challenge related to financial systems. Although we do not consider it a measure that helps evaluate HUD's progress toward improving its systems or addressing its management challenges, this should not be construed as a criticism of HUD's decision to include the measure in its GPRA documents, if it finds the measure useful. Achievement of a clean audit opinion is an important milestone; however, until HUD addresses the Inspector General's concerns about HUD's integrated financial management systems and FHA's general ledger, it will not be in a position to provide reliable, timely information on a day-to-day basis to support ongoing management and accountability.



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