

RENEWING HUD: A LONG-TERM AGENDA FOR EFFECTIVE PERFORMANCE

Report by a Panel of the
NATIONAL ACADEMY OF PUBLIC ADMINISTRATION

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FOREWORD

In September 1992, Congress mandated a study by the National Academy of Public Administration (NAPA) of the Department of Housing and Urban Development (HUD), including the department's human resource requirements and management, financial management, systems integration, and resource estimation capabilities. The Appropriations Committees were concerned about HUD's ability to carry out its mission efficiently and effectively, including its ability to estimate and effectively allocate staff, monitor potential financial obligations and program performance, and give appropriate priority to the mainline housing and community development programs, such as community development block grants, mortgage insurance, section 8 programs, and public and Indian housing. Eventually, the study's scope was extended to include an assessment of HUD's organization. The Academy entered into a contract with HUD in April 1993 to conduct this study and appointed a panel of experts to conduct it. This report presents the panel's findings and recommendations.

Early in the study, it became clear that the NAPA panel and project team also had to address program overload at HUD. No amount of system repair could cope with expectations that exceed this department's capacity, no matter how well it is managed. Considerations of program overload led to questions about HUD's and the federal government's role in housing and community development. The dynamics of change in real estate and financial markets and in American communities, especially urban centers in the past decade, raised questions about what role HUD should play and the capacity it needs to play this role. In short, NAPA had to examine HUD as an institution in the context of the larger housing and community development system.

The NAPA panel has addressed the fundamental issues of how to simplify and consolidate programs and sustain management attention on building and maintaining HUD's institutional capacity. It has also focused heavily on how the federal government relates to communities in a constructive, responsive manner.

The new reorganization charts for HUD are upside down by conventional standards, with communities at the top and HUD's headquarters at the bottom. HUD's mission is now defined as helping to create communities of opportunity. Our panel supports this new mission, and its recommendations are designed to help make it a reality—to make HUD a helping partner to local communities instead of primarily a top-down enforcer of federal mandates. The challenge remains, however, as to how to rewrite legislation, organize federal structures, and maintain proper stewardship of tax dollars while effectively serving the nation's communities. The Academy panel has addressed this challenge and has attempted to balance these competing demands.

HUD can be renewed with strong and sustained leadership. Secretary Henry G. Cisneros and his top team have begun the process and they are to be commended for that. Much more remains to be done, and they will need the cooperation and support of Congress and the White House to get the total job done. This effort will require more discipline and constraint in defining HUD's mission and programs than has been evident in the past, and it will require more support for the institution-building that still lies ahead. I believe that both can be done.

We want to thank Secretary Cisneros, his team, the HUD staff, and the many people in communities we visited who provided information, ideas, and helpful cooperation. We hope the results will prove that their time was well spent, that this study is useful to Congress, HUD, and the administration, and that HUD will become an effective institution of government.

A handwritten signature in black ink, appearing to read "R. Scott Fosler". The signature is fluid and cursive, with a large initial "R" and a long, sweeping underline.

R. Scott Fosler
President

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PANEL MESSAGE

THE CHALLENGE AHEAD

The Department of Housing and Urban Development is at a cross-roads. It can become an effective public institution or it can continue down the now familiar road of poor performance.

The Clinton administration and the secretary of HUD offer what may be the last best chance to create an accountable, effective department. With the cooperation of Congress, the Clinton administration must demonstrate, within its first term, a commitment to clarify HUD's mission and to build its institutional capacity to fulfill that mission.

In the past 15 years, HUD's staff and budget levels have declined. At the same time, the number of HUD's programs has grown, its program flexibility has been sharply curtailed, and its financial exposure has increased. HUD is taking steps to set its financial house in order and has begun a process to integrate its many information systems. The Academy panel commends the department for its efforts. At the same time, the panel is concerned that these efforts, like so many in the past, will be sidetracked with the next change in political leadership. Consistency is crucial in HUD's reconstruction. Accordingly, the panel has set forth recommendations to address the serious problem of lack of management continuity in HUD.

The administration, HUD and Congress must proceed expeditiously with a comprehensive consolidation and reauthorization of all HUD's programs. Until HUD can get its programmatic house in order, no amount of tinkering with management will cure what ails this organization. There must be a rationalization of HUD programs. Instead of having between 150 and 200 separate programs that HUD cannot manage effectively within its available resources, HUD's program structure should be reorganized to have not more than 10 major programs. Under this small number of statutory programs, HUD should have the flexibility to undertake many activities without the need for new congressional enactments and their cascading results of ever more regulations and handbooks.

The current overload of programs, however worthwhile their purposes, saps HUD's resources, muddles priorities, fragments the department's workforce, creates unmeetable expectations, and confuses communities. The process of rationalizing HUD's programs will provide the badly needed opportunity for Congress and the administration to decide what this department is supposed to do. As programs are consolidated, there will be opportunity for radical reductions in competitive allocations of small amounts of money, more opportunity for demonstration and waiver authority to allow flexible partnering with communities, maximum delegation to the lowest accountable state or local level, and a new role in which HUD responds to bottom-up local initiatives that support its mission rather than seeking to impose top-down strategies on localities. Such an approach would be fully consistent with the secretary's vision of HUD's role in support of communities.

In the near term, even before comprehensive consolidation is achieved, Congress needs to provide broad waiver and demonstration authority of the kind that has permitted the Department of Health and Human Services to allow states to experiment with system-wide changes in their welfare programs. This will allow HUD to foster innovation and respond to community initiatives.

The department should be preserved only if it can demonstrate the capacity to manage its resources responsibly, and if the administration, Congress, and HUD can put aside the past to look toward how the department can best help communities meet their needs in a flexible fashion. If, after five years, HUD is not operating under a clear legislative mandate and in an effective, accountable manner, the president and Congress should seriously consider dismantling the department and moving its core programs elsewhere.

The new HUD organization, in which all authority moves along program lines and there is no local decisionmaker to integrate HUD's work in the communities, is unlikely to advance HUD's stated mission of creating communities of opportunity. As long as HUD's field structure is tied to the programs it administers rather than geared to helping communities leverage resources, it is not likely HUD will be an effective partner. The panel believes that HUD must readdress the issue of providing field-level decision-making authority to area coordinators to work through inter-program issues among HUD staff and with communities. HUD needs to take a hard look at how its new structure is meeting the secretary's goal of putting communities first. HUD must maintain a flexible attitude to change course as necessary.

The Academy panel agrees, however, that the old structure was not working. The panel recognizes that program assistant secretaries need involvement in how work is done in the field. It should not fall to the nation's governors, mayors, city managers, county executives, and community organizations to bring HUD's disparate programs into a workable set of solutions for community problems. HUD's individual programs are utensils for the collective toolbox and communities will choose among them. The HUD tools must work cohesively together.

The panel believes that the vertical program structure best serves a commercial-type function such as Federal Housing Administration. FHA's insurance puts the federal government at substantial financial risk and requires a very different mode of operation to properly manage that risk. Thus, the panel recommends creating a separate structure for FHA within HUD. The FHA commissioner must be able to decide how to organize and manage this complex insurance enterprise in such a way that the government's interest is protected over the long-term. With the flexibility for administrative and product decisions, FHA will also be able to apply different program devices, depending on a community's needs, and can better work with the rest of HUD as a true partner in the nation's communities.

Once FHA becomes a separate entity under the secretary's policy direction, the secretary can concentrate on creating a department that ensures that issues are resolved in the HUD office closest to a community, and minimizes the number of problems that get raised to headquarters.

THE CHALLENGE FOR CONGRESS

The challenge for Congress is to help bring stability to the renewal of HUD and ensure predictability in its programs so that communities know what resources will be available. As a partner in HUD's revitalization, Congress' role is to work with the administration and the secretary to develop a long-term agenda for change. Clarifying HUD's mission and consolidating its programs require the help of HUD's authorization and appropriation committees. In the short term, Congress needs to work with the secretary in creating additional waiver and demonstration authority for HUD.

As the authorizer of funds, Congress can provide the continuous resource stream and support to keep the revitalization agenda on track. In its oversight role, Congress must hold annual hearings at which the HUD secretary and leadership team report on their performance against the agreed-upon plan for rebuilding HUD as an effectively performing public institution.

THE CHALLENGE FOR THE ADMINISTRATION

HUD has been a strong participant in the National Performance Review (NPR), and the administration has an opportunity to use its tenets in revitalizing HUD. First, the administration should develop a collaborative framework—the same kind that the Vice President used to cultivate innovation through NPR—to reach agreement on the institution-building agenda among HUD, the White House, its various policy councils, and the Office of Management and Budget.

Secondly, the administration must provide an added measure of discipline in aligning HUD's programs with the department's capacity. No proposal should be advanced without specific details on the resources to implement them and on how the program will be managed if Congress and the president do not agree on requisite trade-offs within the HUD budget.

THE CHALLENGE FOR THE SECRETARY

HUD secretaries have adjusted departmental priorities to reflect their goals and values, as well they should. The spillover of this approach into creating new programs has contributed to HUD's mismatch of responsibilities and resources, however, and that must end. The secretary must take the lead in restructuring and consolidating HUD's programs. Without it, HUD's future is bleak. Only problems and blame will be in abundance.

While the secretary can provide the impetus for program restructuring, he cannot make the final decisions. But he can provide the leadership and leverage for departmental management reform, and his *Reinventing HUD* program already deals directly and strongly with organizational improvements. Now he must address the sustainability of those efforts.

These are the two components—program restructuring and management reform—for HUD's long-term, institution-building agenda. It is up to the secretary to formulate the framework and work with the administration and Congress to garner support to adopt it. Once done, only his leadership will coalesce political and career executives to support it and build its successes so that another secretary will want to continue leading the institution-building charge.

The Academy Panel, and probably every line manager at HUD, looks forward to the day when HUD's organization and management systems are so effective that new secretaries regard them as meaningful resources rather than problems to rectify. A stable and motivated career staff would then be able to administer HUD's programs in partnership with the nation's communities. HUD could still respond to changes in political direction, but it could maintain stability and integrity in program administration.

As field offices oriented toward communities evolve in this renewed HUD, they will be sustained by a new culture that reinforces the need to cooperate with communities and recognizes employees for integrating HUD's programs to deliver the best HUD product to the ultimate consumers—the communities and their residents.

Secretary Cisneros and his leadership team are capable and dedicated political leaders. Their qualifications are impressive. The challenge to them, and to the president and Congress, is to forge an institution that is ready to begin the 21st century without being reinvented, reorganized, and reformed—again. That legacy would be a vital contribution to the nation's communities.

LIST OF ACRONYMS

AC	Area Coordinator
ASA	Assistant Secretary for Administration
ASFM	Assistant to the Secretary for Field Management
ASH/FHA	Assistant Secretary for Housing/FHA Commissioner
ATA	Automation Technology Assistants
CASE	Computer-Aided Software Engineering
CBO	Congressional Budget Office
CDBG	Community Development Block Grant
CFO	Chief Financial Officer
CFS	Control File Subsystem
CHAS	Comprehensive Housing Affordability Strategy
CIAP	Comprehensive Improvement Assistance Program
CLPHA	Council of Large Public Housing Agencies
CMHI	Cooperative Management Housing Insurance Fund
COMPAC	Community Partnerships Against Crime
COO	Chief Operating Officer
CPD	Community Planning and Development
DAS	Deputy Assistant Secretary
DOT	Department of Transportation
DVA	Department of Veterans Affairs
ECHO	Elder Cottage Housing
EDA	Economic Development Administration
E-mail	Electronic mail
ESG	Emergency Shelter Grant Program
ETRS	Employee Time Reporting System
EZ/EC	Empowerment Zones and Enterprise Communities
FEMA	Federal Emergency Management Agency
FERA	Front-end Risk Assessments
FFS	Federal Financial System
FHA	Federal Housing Administration
FHA/MIS	FHA Mortgage Insurance System
FDIC	Federal Deposit Insurance Corporation
FHC	Federal Housing Corporation
FHEO	Fair Housing and Equal Opportunity
FHLBB	Federal Home Loan Bank Board
FHMLC	Federal Home Loan Mortgage Corporation
FICO	Financing Corporation
FMFIA	Federal Managers' Integrity Act of 1982
FmHA	Farmers Home Administration
FMIA	Financial Managers Integrity Act
FNMA	Federal National Mortgage Association
FRC	Federal Regional Councils
FSS	Family Self Sufficiency
FTE	Full-time Equivalent (positions)

FTP	Full-time Permanent (staff)
GAO	General Accounting Office
GI	General Insurance Fund
GNMA	Government National Mortgage Association
GPRA	Government Performance and Results Act
GSE	Government Sponsored Enterprise
HHFA	Housing and Home Finance Agency
HHS	Health and Human Services, Department of
HMDA	Home Mortgage Disclosure Act
HOME	HOME Investment Partnership Program (no acronym for HOME)
HOPE	Housing Opportunities for People Everywhere
HOPE 1	Single Family Homeownership Opportunities
HOPE 1/PIH	Planning and Implementation Grants for Public and Indian Housing
HOPE 2	Homeownership of Multifamily Units
HOPE 6	Urban Revitalization Demonstration grants (for severely distressed PHAs)
HOPWA	Housing Opportunities for People with AIDS
HUD	Housing and Urban Development, Department of
ICH	Interagency Council on the Homeless
IDP	Individual Development Plan
IHA	Indian Housing Authority
IPS	Information Policies and Systems
IRM	Information Resources Management
IRS	Internal Revenue Service
ISP	Information Strategic Plan
LIFT	Neighborhood Leveraged Investments for Tomorrow
MMI	Mutual Mortgage Insurance Fund
MOU	Memorandum of Understanding
NAHA	National Affordable Housing Act (1990 and 1992)
NAHRO	National Association of Housing and Redevelopment Officials
NAPA	National Academy of Public Administration
NCDI	National Community Development Initiative
NGO	Non-governmental organization
NIS	Negotiated Investment Strategy
NOFA	Notice of Funding Availability
NPR	National Performance Review
OGC	Office of General Counsel
OH	Office of Housing
OIG	Office of Inspector General
OMB	Office of Management and Budget
PAS	Program Assistant Secretary
PBGC	Pension Benefit Guaranty Corporation
PC	Personal computer
PD&R	Policy Development and Research
PH	Public Housing
PHA	Public Housing Authority
PIH	Public and Indian Housing
PMC	President's Management Council

PMI	Presidential Management Intern Program
RAGS	Resource Allocation Guidelines System
REF-Corp	Resolution Funding Corporation
RFC	Reconstruction Finance Corporation
RMSC	Resources Management Steering Committee
RTC	Resolution Trust Corporation
S8S	Section 8 System
SAFAH	Supplemental Assistance for Facilities to Assist the Homeless
SC	State Coordinator
SDM	System Design Methodology
S&E	Salary and Expense
SISC	Systems Integration Steering Committee
SPS	Strategic Performance System
SR	Secretary's Representative
SRI	Special Risk Insurance Fund
SRO	Section 8 Mod Rehab Program for Single Room Occupancy
SSI	Supplemental Security Income
TNAS	Training Needs Assessment System
TQM	Total Quality Management
TRACS	Tenant Rental Assistance Certification System
TVA	Tennessee Valley Authority
UDAG	Urban Development Action Grants
ZEDI	Zone Economic Development Issues

CHAPTER ONE

INTRODUCTION

Powerful forces at home and abroad changed the conditions under which the United States and its governments at all levels conducted work in the 1980s and early 1990s. Economic and technological changes worldwide, increasingly vocal demands for efficient government, and stringent constraints on public spending combined to sweep aside the old assumptions about work and government.

As these powerful forces affected governments, there were equally fundamental changes occurring in the way the financial and real estate industries operated. Numerous businesses and government structures reorganized to address these external conditions. Those private and public organizations that stayed abreast of evolving conditions entered the 1990s with leaner and more efficient operations, a more customer-oriented attitude, and new measures of successful performance. As they approached the mid-1990s, many businesses were shedding unprofitable lines, responding to the implications of the internationalization of most markets, and conducting more business electronically. Government at all levels struggled to follow suit. Many states and cities made gains in reshaping their institutions' service-delivery systems to meet public expectations within reduced resources. Other government organizations were less successful.

One institution that did not make a successful transition was the Department of Housing and Urban Development (HUD). The agency was left behind, not only because of the rigidity of federal management systems, but also because of an inherent constraint in democratic government: the difficulty of achieving political consensus on long-term missions and short-term programs. More than that, HUD became an example of many of the problems of government that moved to the forefront of public debate in the 1980s and early 1990s. Even as American cities saw their resources erode and the problems they had to address grow, HUD was accused of politically directed spending, lack of coordination among its programs, and gross mismanagement. The department lost the public's trust.

This report is about how HUD is structured to operate within an environment that has changed and is continuing to change. It explores the efforts HUD has underway to fix what is clearly broken as well as how HUD can further develop effective means to address programmatic and administrative problems. The report begins where HUD begins--with its mission, its ability to carry out its mission, and, ultimately, its ability to serve the American people well.

HUD'S TROUBLED DECADE

HUD's problems can be attributed to a variety of causes, many of which are described in subsequent chapters. But HUD's problems became most obvious during the decade of the 80s. Non-partisan observers conclude that the Reagan administration did not highly value HUD or its mission. Agency staff and funding levels decreased by 23 percent and almost 50 percent respectively in the 1980-1990 period as the number of programs enacted by Congress nearly

tripled; the department did not or could not invest adequately in management systems, such as information, human resource, and financial, that would enable it to track and operate its complex programs.

In the late 1980s, HUD became best known for scandals involving, primarily, its political appointees and private-sector realtors, mortgage lenders, and coinsurers. For example, senior political appointees treated the Mod Rehab program (which provided funds for lower-income housing modification and rehabilitation) without regard to operative competitive rules and awarded assistance to politically favored developers. This practice continued despite warnings from HUD's inspector general. It sparked congressional investigations in 1989 and led to criminal prosecutions. As of March 1994, the special prosecutor handling the HUD scandals had obtained 10 convictions and a former high-ranking department official had gone to prison.

The Bush administration brought a highly energetic secretary, Jack Kemp, who focused on restoring integrity to the department. Kemp appointees spent large amounts of time dealing with financial and management problems, and many efforts they began are still underway. Secretary Kemp and President Bush expressed a far more positive view of the department and its role; they introduced innovative programs, such as the Enterprise Zone initiative, an emphasis on homeownership, and expanded aid to the homeless.

But the damage to the department had been severe and the cure generated its own difficulties. In reaction to earlier scandals, Secretary Kemp and Congress instituted a range of controls designed to prevent mismanagement and make discretionary awards of contracts and grants more difficult. Although these efforts clearly tightened overall program supervision, they created a broad enforcement attitude throughout HUD's programs that many grantees and local governments say placed a disproportionate emphasis on oversight rather than partnership.

The HUD that Secretary Cisneros inherited was clearly a troubled agency. It faced barriers to change. HUD had no program to develop, train, and nurture future executives; few funds to provide the training needed to effect major cultural change; little capacity or inclination to circulate staff among programs or between headquarters and the field to provide staff with a broad perspective or needed cross-fertilization; and insufficient means to allocate staff where they are most needed to meet urgent or emerging workload demands.

GROWING CONGRESSIONAL CONCERNS

Problems at HUD made members of Congress uneasy, frustrated, and even angry. The scandals also were the subject of major media attention and began to cause political embarrassment at home. Signs of internal management dysfunction at HUD were evident. For example, HUD reported that there was a shortfall of about \$1.2 billion in its Section 8 contract renewal budget estimates submitted to the Congress for fiscal year 1992. Congress also grew concerned that HUD's own estimates of required staffing levels were not based on reliable workload data, thus ensuring program goals could not be met. Successive reports HUD's inspectors general submitted to Congress presented these and other major problems. Highlighted below are the 10 problems cited in the September 30, 1993, inspector general's report.¹

Systemic Problems

1. **Data Systems.** HUD's automated data systems preclude effective control and management of its wide range of large, complex programs. HUD currently has many separate, poorly integrated, often duplicative, and generally unreliable data systems.
2. **Resources Management.** HUD does not have sufficient staff to carry out its operations as currently structured. In addition, it does not have a plan for either acquiring additional competent staff or restructuring operations based on the resources it has. Of special concern is the increased risk of fraud and abuse as HUD shifts much of its program delivery functions to others, without the level of monitoring needed to prevent, detect, or correct problems.
3. **Control Environment.** HUD does not have an effective Management Control Program to raise control consciousness and provide for evaluation, improvement, and reporting on internal control and financial management systems. Since 1983, the inception of its Management Control Program, HUD has been unable to report compliance with the Federal Managers' Financial Integrity Act of 1982 (FMFIA).

Programmatic Problems

4. **Multifamily Housing Loan Servicing.** Multifamily housing project owners and management agents continue to misuse or divert project assets and income, adversely impacting both HUD and low- and moderate-income persons through increased defaults and project deterioration. The problems persist because insufficient staff and poor systems contribute to ineffective monitoring that prolongs corrective actions and because available sanctions are not used effectively.
5. **Asset Management and Property Disposition.** Controls over HUD's multi-billion dollar Single Family and Multifamily Property Management and Disposition activities are inadequate to preserve housing and safeguard the financial interests of the government. While HUD has substantially improved its property management systems support and internal controls, problems of staffing and resource management continue to adversely impact this high-dollar program area.
6. **Community Development Block Grant Program (CDBG): Benefits to low- and moderate-income residents.** HUD management needs to improve controls for ensuring that CDBG grantees fund eligible activities and provide the required level of activities for the benefit of low- and moderate-income persons.

7. **Public Housing Agencies.** Significant continuing problems in the management and operation of many public housing agencies (PHAs) continue to frustrate HUD's efforts to achieve its goal of providing decent, safe, and sanitary dwellings for low-income families.
8. **Government National Mortgage Association (GNMA) Contract Monitoring.** With a limited staff, GNMA relies heavily on contractors to carry out the asset management and program responsibilities associated with its Mortgage-Backed Securities Program. GNMA has limited assurance that its extensive contract services are properly performed and claims for services are reasonable or valid.
9. **Section 8 Budgeting and Accounting.** HUD does not have an adequate system for tracking and controlling billions of dollars of long-term Section 8 subsidy commitments, resulting in millions of dollars of incorrect or misdirected subsidy payments and difficulty in establishing program funding needs.
10. **New Program Implementation.** New programs pose a major challenge to HUD management to develop and implement, in a timely manner, plans, procedures, systems, staffing, and other tools necessary for efficient and effective program implementation.

Congress supported the internal investigations and added staff for the Office of Inspector General. Several congressional committees held hearings on different aspects of the scandals.² Evidence that these problems continue is the Comptroller General's decision, in early 1994, to declare the entire department as "high risk."³

Among members of Congress with a direct responsibility for the department are those serving on the Committees on Appropriations overseeing HUD programs. When the Senate committee, in July 1992, reported out the HUD fiscal year 1993 appropriations bill, it noted that:

In preparing its allocation of staffing resources for fiscal year 1993, the Committee directs the Department to provide adequate amounts for staffing for section 8 and [Federal Housing Administration] multifamily housing activities in the field. In both areas, the Department has lacked the expertise and quality control mechanisms to avoid exposing the Department and, more importantly the taxpayer, to substantial financial exposure. As a result, the fiscal year operating plan should specify the allocation of field resources by major program activity, with particular emphasis on the two areas cited here.⁴

ACADEMY ROLE IN ASSESSING HUD MANAGEMENT

Congress wanted more than HUD reports on which to base actions to help the agency through its troubled times. It wanted an independent analysis of HUD's internal management.

To that end, Congress provided, in the fiscal year 1993 appropriations bill for HUD, \$1 million for a "study by the National Academy of Public Administration on HUD staffing and human resources management and requirements."⁵ The Senate report made clear that the study should include financial management and systems integration activities as well.

The mission of the National Academy of Public Administration (NAPA) is to improve the effectiveness of federal, state, and local government. The Academy works toward that end chiefly by using the individual and collective experience of its members (who are called Fellows and who number about 400), as practitioners and students of government, to provide expert advice and counsel to government leaders. As a congressionally chartered nonprofit organization, the Academy often advises federal agencies on organizational options, management systems, or broader public management issues. The Academy conducts most of its studies under the guidance of panels of accomplished experts, some of whom are elected Academy Fellows and some of whom are selected from outside to supplement Academy Fellows' expertise.

In addition to the congressional mandates to study HUD's management systems, Secretary Kemp requested that the Academy include a study of HUD's organization, with particular attention to the relation of regional and field offices to headquarters. When the Clinton administration entered office, NAPA entered into negotiations with Secretary Cisneros and his key staff about the study, resulting in a Memorandum of Understanding (MOU), which was signed in July 1993 (See Appendix A). They agreed that, in addition to its management analysis, the Academy should review HUD's mission, its program and organizational history, and its place in the nation's housing and community development system. Conducting the work in this context would enable the NAPA panel convened for this study to address how these issues and others, such as political leadership, interacted to form the contemporary culture and environment in which HUD and its employees are a part.

As the Academy panel's assessment began, other internal reviews were also proceeding. Secretary Cisneros and his senior staff were undertaking their own appraisal of HUD and its programs and were developing ideas for a possible organizational restructuring. Concurrent with HUD's internal studies, President Clinton announced the National Performance Review (NPR), which was headed by Vice President Gore. Its September 1993 report included a recommendation to reorganize HUD by eliminating its 10 regional offices. On December 1, 1993, Secretary Cisneros announced the reorganization, which abolished regional offices and gave line authority to the program assistant secretaries (See Chapter Four).

In light of these events, the Academy panel shifted the focus of its study from HUD as it had existed to HUD as it would exist under the secretary's reorganization and other initiatives being taken. The panel sought to determine if the proposed Cisneros reorganization would help solve identified problems and provide a more effective framework for departmental operations.

METHODOLOGY OF THE ACADEMY STUDY

The Academy entered into a contract with HUD on April 16, 1993, to conduct the study mandated by language in the fiscal year 1993 Appropriation Act and as agreed to with HUD. The Academy selected a panel of experts and assigned a staff of individuals with proven

analytical skills and familiarity with federal programs and operations. A list of Academy panel and staff who served on the HUD study appears at Appendix B. As project planning began, the Academy president and the project director met with Secretary Cisneros and other top HUD officials to learn their views and obtain their suggestions.

Phase I of the assessment started in July 1993 and lasted eight weeks. During that time, project staff outlined the scope of the work and developed a project plan to present to the panel at its first meeting, held in September 1993. Phase I entailed a brief literature search; a series of interviews with current and former HUD executives; visits to regional and field offices; interviews with staff of congressional committees, the Office of Management and Budget (OMB), and the General Accounting Office (GAO); and a thorough assessment of the data available for review. The project director and staff maintained continuing congressional contact throughout the project with committees responsible for reauthorizations and appropriations through their majority and minority staffs in order to keep them informed and to solicit ideas.

At the end of Phase I, the work plan was divided into five areas:

- financial management (with special emphasis on Section 8 estimates);
- staffing estimation and allocation;
- human resources management;
- information management and systems integration; and
- the organizational review, which included HUD's organizational structure and how it operates internally and with the communities served.

Project staff collected reports of the HUD inspector general and the GAO, congressional documents, consultant reports, historical analyses, internal HUD documents, and many others. A partial list of this documentation is included at Appendix C. Project staff conducted in-depth structured and unstructured interviews with headquarters and field staff, including union representatives. Staff interviewed in HUD regional offices in Atlanta, Chicago, Fort Worth, Kansas City, and San Francisco. They visited field offices collocated with regional offices as well as those in Baltimore, Grand Rapids, Los Angeles, Milwaukee, Nashville, and San Antonio. A list of the interviews is shown in Appendix D.

All data and information in this report represents that available at the time NAPA submitted this report to HUD for comment on May 9, 1994.

The panel secured information on how HUD interacts with the communities it serves from these sources:

- Meetings in Baltimore, Chicago, and Denver with beneficiaries of HUD programs. There were 20 to 24 participants in each city divided into separate groups to discuss: multifamily programs, single-family programs, CDBG and HOME, and public housing and Section 8. At each

location, participants included nonprofit and for-profit housing developers and managers, lenders, public agencies, and housing and community development organizations.

- Review of comments HUD collected through a series of teleconferenced focus groups, in which clients of HUD programs commented on regulations and perceived impediments that precluded conducting HUD's programs well.
- Interviews with HUD staff in headquarters, regional, and field offices.
- A meeting with public and special interest groups representing organizations involved in HUD programs.
- Written responses from public interest and special interest groups that were asked to comment on the major areas of the NAPA study.
- A paper the Academy commissioned Dr. Rachel Bratt to prepare on the evolution of HUD and its programs.

The Academy panel met six times to approve the scope and broad plans for the project, provide direction to the staff, review and comment on briefing materials, and develop or approve recommendations. HUD's assistant secretary for policy development and research and the chief financial officer each attended a panel meeting to brief panel members on HUD activities. At its February 1994 meeting (the fourth), the panel developed a set of principles that became a framework for considering the draft recommendations. These 10 principles were:

Principles Relating to Program Delivery

1. A clear mission is best derived from broad enabling legislation under which a department's activities can be organized, rather than a myriad of individual programs created by many different statutes.
2. Collaborative partnerships rather than rule-based decision making will enable HUD to deliver programs that are well integrated with community needs.
3. HUD's programs accomplish the most when they are integrated in headquarters and coordinated and administered at the community level.
4. The most effective decision-making structure is one that permits decisions to be made closest to the community.
5. The information and reporting requirements HUD imposes on communities should be the minimum needed to support program needs efficiently.

Principles Relating to Institutional Capacity

6. The lengthy timeframe needed for substantive organizational change demands sustained leadership, a comprehensive strategy, and the incentives to support it.
7. Sound management systems should facilitate program implementation and free HUD employees' time (managers' and staff) to work directly with communities.
8. Effective organizations plan, set milestones, and monitor progress, and are willing to change course as necessary.
9. The mix of resources--staff, contractors, training, travel dollars, etc.--should be driven by the optimal means of delivering HUD's services to communities unfettered by arbitrary external constraints.
10. Advances in information technology and restructured work methods will lead to changes in how certain work is organized and accomplished, and in the number of staff needed to do it.

In addition to its formal meetings, the panel held a November teleconference to discuss HUD's proposed reorganization. The panel sent its comments on the reorganization to HUD's chief financial officer shortly before the secretary announced the reorganization on December 1, 1993. At its March 1994 meeting (the fifth), the panel briefed the HUD secretary and most of his senior staff on its findings and elicited their views.

ORGANIZATION OF THIS REPORT

The report opens with a message from the panel describing HUD's need for renewal, and sets forth challenges for HUD, the administration, and the Congress to bring that renewal about.

Chapter One describes the origins of the study, how NAPA became involved, and the methodology used. Chapter Two broadly describes HUD's disparate missions and clients and discusses similar service-delivery programs managed by other federal agencies. The chapter examines societal factors that affect HUD's mission and some indications that HUD still has serious problems addressing its mandate and internal program management. Chapter Two also describes some of the initiatives that Secretary Cisneros has launched to address HUD's problems and raises the larger question, Can a HUD with its current mix of responsibilities ever function well?

Chapter Three examines the growth and diversity of HUD programs in the context of serious resource decline. It also discusses the dichotomous role HUD plays in the business and community sectors. All of this is discussed in the context of HUD's many communities of users.

Chapter Four traces the evolution of HUD's organizational structure and examines the March 1994 reorganization. It evaluates the planned changes to determine if they will address the severe problems HUD and Congress are concerned about and whether they will create communities of opportunity throughout the nation. A major segment of the chapter examines whether HUD can continue to maintain the same structure for the commercial-type programs of the Federal Housing Administration (FHA) and the broader community development and social programs it operates.

Chapter Five examines four major management areas: financial management, information management and systems integration, staff estimation and allocation, and human resource management. For each area, the panel outlines the present situation and some of its background, discusses HUD's current initiatives to bring about improvements, and presents recommendations to improve on current initiatives and for additional actions needed.

The final chapter--Six--looks ahead to some organizational and leadership issues, and proposes a long-term agenda for expanding HUD's institutional capacity. It also sets forth a role for the Congress in bringing about needed change at HUD.

The panel requested a working paper on HUD's role in the housing and community development environment. Accordingly, the project director commissioned Dr. Rachel Bratt of Tufts University, who prepared the paper, "The Role of HUD In Housing and Community Development Systems." This is published as a separate document and is available upon request from NAPA.⁶

Endnotes: Chapter One

1. HUD Inspector General. *Semiannual Report to the Congress*, No. 30, Sept. 30, 1993, pp. 2-13.
2. HUD/MOD Rehab Investigation Subcommittee of the Senate Committee on Banking, Housing, and Urban Affairs, Final Report and Recommendations, Senate Print 101-124, 1990.
3. GAO testimony before the Senate Committee on Governmental Affairs, Jan. 27, 1994 (GAO/T-OCG-94-1).
4. Senate Report 102-356, Aug. 3, 1992, accompanying the Departments of Veterans Affairs and Housing and Urban Development, and Independent Agencies Appropriation Bill, 1993, page 81.
5. P.L. 102-356, Oct. 6, 1992.
6. *Role of HUD in Housing and Community Development Systems*. prepared for the National Academy of Public Administration's Study of HUD by Rachel G. Bratt, Ph.D., Associate Professor, Department of Environmental Policy, Tufts University, Medford, MA 02155, Jan. 14, 1994.

CHAPTER TWO

HUD'S MIX OF MISSIONS: A PRESCRIPTION FOR PROBLEMS

HUD has from its creation struggled to find a coherent identity. Because of the mismatch of goals and resources and its many communities of users, HUD faces a tandem *performance deficit* (the gap between what HUD is supposed to do and has the ability to accomplish) and *expectations glut* (unrealistic perceptions of what HUD can accomplish). The result is a prescription for problems.

Chapter Two broadly describes HUD's disparate missions and communities of users and discusses similar programs managed by other federal agencies. It looks at societal factors that affect HUD's mission and at some of the indicators that HUD has serious problems addressing its mandate and how to manage its programs effectively to achieve it. It also describes some of the initiatives that Secretary Cisneros has launched to address HUD's problems and raises the larger question of how HUD, with its current mix of responsibilities, can ever function well.

HUD'S MANDATE

In creating HUD in the Department of Housing and Urban Development Act of 1965,¹ Congress stated that:

- . . . the general welfare of the Nation and the health and living standards of our people require, as a matter of national purpose, sound development of the Nation's communities and metropolitan areas in which the vast majority of its people live and work.

To pursue this proposition, "and in recognition of the increasing importance of housing and urban development in our national life," Congress tasked the department to:

- . . . achieve the best administration of the principal programs of the Federal Government that provide assistance for housing and the development of the Nation's communities;
- assist the President in achieving maximum coordination of the various Federal activities which have a major effect upon urban community, suburban, or metropolitan development;
- encourage the solution of problems of housing, urban development, and mass transportation through state, county, town, village, or other local and private action, including promotion of interstate, regional, and metropolitan cooperation;

- encourage the maximum contributions that may be made by vigorous private homebuilding and mortgage lending industries to housing, urban development, and the national economy; and
- . . . provide for full and appropriate consideration, at the national level, of the needs and interests of the Nation's communities and of the people who live and work in them.

The breadth--some might say vagueness--of this language is not surprising, given the problems of urban America and the lack of political consensus that existed when Congress established the department. Although the Demonstration Cities and Metropolitan Development Act of 1966 established the Model Cities program, creating HUD primarily raised to department status the Housing and Home Finance Agency (HHFA) and granted to the secretary power over its constituent organizations. One analysis of HUD's creation² expressed the generally accepted belief that HHFA "wanted cabinet status, parity with other departments, protection of its traditional programs, and internal organization. What HHFA did not want was political trouble: jurisdictional wars with other agencies, conflict with congressional oversight committees, a running battle with state and local governments over urban priorities."

MIX OF PROGRAMS AND DELIVERY MECHANISMS

HUD's programs officially fall into four major categories:

- **FHA Mortgage Insurance** is provided for single-family property, multifamily projects, and other facilities to mortgage lenders, including mortgage companies, commercial banks, savings banks, and savings and loan associations. Similarly, guarantees--as in the \$100 billion issued annually in the GNMA Mortgage-Backed Securities program or the \$2 billion issued annually as CDBG loan guarantees--are provided through the same type of institutions.
- **Subsidized housing** has a variety of delivery mechanisms. Public housing authorities are local entities established by state law to administer: the public housing program, through which publicly owned or leased units are rented at subsidized rates to eligible families; and the Section 8 certificate and voucher programs, in which a portion of the rent in privately owned housing is paid for eligible families as an income supplement. Other service deliverers include private developers and state housing finance and development agencies that developed new or substantially rehabilitated projects as well as nonprofit organizations that may have sponsored such projects. States, cities, urban counties, and other jurisdictions also participate in service delivery through the HOME Investments Partnerships and other programs.
- **Local developmental assistance** is provided to and through states, cities, towns, counties, and other jurisdictions. Recipients may pass through

assistance to a variety of community organizations, including community development corporations--nonprofit, community-based organizations dedicated to the revival of a specific geographical area--and neighborhood and other groups. Some forms of assistance may go directly to nonprofit groups and organizations without going through governmental jurisdictions first.

- **Regulatory functions** of HUD include supervision of the Fannie Mae and the Freddie Mac and certain regulatory controls over home mortgage settlement services, manufactured mobile homes, and interstate land sales. The Fair Housing and Equal Opportunity (FHEO) functions of the department also involve some oversight of the functions of state and local fair housing agencies, and HUD has a portion of the federal law enforcement budget function in this activity.

A *de facto* fifth category--social services--has arisen. These programs often are directed to the needs of special population groups (such as the elderly or homeless). Some are geared to low-income groups (Family Self-Sufficiency, Housing Counseling, Public Housing Child Care), while others are designed to deal with special problems faced by individuals or families or lessen the likelihood that such problems will occur (Drug Elimination, Youth Build). In essence, many statutes added in the last decade address the people who live in HUD-sponsored or funded housing rather than the housing itself.

If the 1965 enabling language seems vague and the major programs broad, the stated purposes of literally hundreds of pieces of program legislation are often quite specific. Some laws HUD administers predate the department, while others reflect congressional intent since 1965. Congress enacted 130 new HUD programs or major amendments to existing programs between 1974 and 1992. Table 2-1 highlights several major pieces of legislation.

PROGRAMS IN THE CONTEXT OF RESOURCES

HUD's 160+ active programs directly and indirectly affect most Americans. The entitlement portion of the CDBG program, for example, provides assistance to areas populated by more than 150 million people in 802 metropolitan cities and 135 urban counties that include 3,300 participating jurisdictions. The state-administered block grant program operates in virtually all states and serves about 3,500 smaller communities each year.

As of the end of fiscal year 1992, the FHA had insurance in force for more than 6.5 million single-family units and more than 700,000 multifamily units. At the same time, HUD supported almost five million subsidized housing units, including public housing and publicly subsidized rentals in private housing. HUD's programs for Fair Housing and Equal Opportunity are to ensure that *all* housing in the United States--not just federally financed or subsidized housing--is available to all people without regard to race, color, religion, sex, national origin, handicap, or familial status. The equal opportunity logo pervades all housing rental and sales advertising.

Though it serves many people, HUD does not build housing or plan community development projects to fulfill its mission. HUD is an insurance and grant-making agency that provides a very broad range of financial assistance to diverse public and private organizations in hundreds of communities.

Table 2-1
Selected Components of Major HUD Legislation

<p><i>National Housing Act of 1934, which created FHA</i></p> <p>Insure banks, trust companies, personal finance companies, mortgage companies, building and loan associations, installment lending companies, and other such financial institutions the secretary finds qualified and approves as eligible for credit insurance against losses they may sustain as a result of loans and advances of credit and purchases of obligations.</p>
<p><i>U.S. Housing Act of 1937, which created the Public Housing Program</i></p> <p>Promote the general welfare of the nation by employing its funds and credit to assist the several states and their political subdivisions to remedy the unsafe and unsanitary housing conditions and the acute shortage of decent, safe, and sanitary dwellings for families of lower income and...vest in local public housing agencies the maximum amount of responsibility in the administration of their housing programs.</p>
<p><i>The Housing Act of 1949</i></p> <p>Declared that the general welfare and security of the nation requires establishment of a national housing policy to realize the goal of a decent home and a suitable living environment for every American family. Authorized federal advances, loans, and grants to localities to assist slum clearance and urban redevelopment. Significantly increased FHA mortgage insurance program for nondefense housing.</p>
<p><i>Title VIII of the Civil Rights Act of 1968</i></p> <p>Created the position of Assistant Secretary for Fair Housing and Equal Opportunity to administer this and other civil rights statutes.</p>
<p><i>The Housing and Urban Development Act of 1968</i></p> <p>Reaffirmed the national goal of the 1949 Act of a decent home and a suitable living environment for every American family. Determined the goal could be achieved within the next decade by constructing or rehabilitating 26 million housing units, including six million for low- and moderate-income families.</p> <p>Authorized federal guarantees of borrowings (including borrowing on the bond market) of private developers of sites for new communities.</p>

Emergency Home Finance Act of 1970

Expanded FNMA's mortgage purchase authority to include conventional mortgages.

Established a new secondary market facility, FHLMC, in the Federal Home Loan Bank System, to deal in government insured and conventional mortgages. Authorized interest subsidy payments to FNMA and FHLMC to reduce mortgage payments of middle-income families during high interest rate periods.

Lead-Based Paint Poisoning Prevention Act of 1972

Required the secretary (in consultation with the secretary of the then-Department of Health, Education and Welfare) to develop and carry out a demonstration and research program to determine: 1) the nature and extent of lead-based paint poisoning in the U.S., and 2) the methods by which these paints could be effectively removed from surfaces to which children may be exposed.

The Housing and Community Development Act of 1974

Established the Community Development Block Grant Program. Terminated several categorical programs, including: open space-urban beautification; urban renewal grants; public facility loans, water and sewer and neighborhood facilities grants; and model cities supplemental grants.

Improved and updated the public housing program and the new section 8 program that authorized HUD to enter into housing assistance payments contracts on behalf of eligible families occupying new, substantially rehabilitated, or existing rental units.

Housing and Community Development Amendments of 1978

Established a new program under which the secretary could provide assistance payments to owners of troubled multifamily projects assisted under the section 236 or Rent Supplement programs. Directed HUD to assure tenant participation in multifamily housing projects eligible for assistance under the Troubled Projects program.

Housing and Urban-Rural Recovery Act of 1983

Authorized new Housing Voucher Demonstration.

Eliminated the requirement for FHA-administered interest rates, and instead, allowed FHA to operate under a negotiated interest rate structure.

Eliminated the aggregate 20 percent cap on coinsurance on the grounds that coinsurance maximizes the role of the private sector, reduces processing time through lender processing, and reduces HUD's exposure to losses through risk sharing.

Repealed the Section 8 New Construction and Substantial Rehabilitation program (except in connection with section 202 projects).

The Housing and Community Development Act of 1987

Made the housing voucher program permanent.

Put the modernization program on a formula basis.

Reduced HUD's flexibility with regard to multifamily housing management and preservation.

Authorized the Fair Housing Initiatives Program and the Nehemiah Program.

Authorized the Enterprise Zones program, but without tax incentives.

Emergency Low Income Housing Preservation Act of 1987

To preserve and retain to the maximum extent practicable as housing affordable to low-income families or persons those privately owned dwelling units that were produced for such purpose with Federal assistance.

To minimize the involuntary displacement of tenants currently residing in such housing.

To continue the partnership between all levels of government and the private sector in the production and operation of housing that is affordable to low-income Americans.

The Stewart B. McKinney Homeless Assistance Act of 1987

Reauthorized the existing two HUD homeless assistance programs (Emergency Shelter Grants and Transitional Housing Demonstration programs) and established several others.

Required HUD and other federal agencies to identify underutilized federal property that is suitable for use for facilities to assist the homeless.

Provided for a HUD role on the Interagency Council on the Homeless.

Anti-Drug Abuse Act of 1988

Required public housing leases to contain a provision to terminate tenancy for criminal activity, including drug-related activity, on or near public housing. Established a Public Housing Drug Elimination Pilot program to permit HUD to make grants to public and Indian housing (PIH) agencies to use in eliminating drug-related crime.

The Fair Housing Amendments Act of 1988

Authorized federal government to act on behalf of individual victims of housing discrimination, to initiate investigations without formal complaints, and to impose stiff civil penalties on those who discriminate.

Added handicap and familial status to the classes already protected by federal law.

Avoided imposing unreasonable federal inspection requirements on construction of new multifamily housing that is required to be adapted for use by handicapped individuals.

Department of Housing and Urban Development Reform Act of 1989

Reformed HUD programs and management procedures to eliminate political influence and restore integrity to program administration. Institutionalized program monitoring and evaluation. Streamlined congressional review of HUD regulations.

Reformed FHA programs and procedures, including terminating land development and investor loan programs, and established an annual audit requirement for FHA financial statements.

Established National Commission on Severely Distressed Public Housing.

The Cranston-Gonzalez National Affordable Housing Act of 1990

Required certain HUD assistance be provided only to jurisdictions that submit to HUD a comprehensive housing affordability strategy (CHAS) that describes the jurisdiction's housing needs and strategies to meet them.

Established HOME program, a block grant program to promote public and private sector partnerships to use effectively all available resources to ensure adequate supply of affordable housing (primarily rental) for very low- and low-income families.

Established HOPE program to provide planning and implementation grants to increase homeownership opportunities for low-income families in public and Indian Housing (HOPE I), multifamily properties (HOPE 2), and government-held single family homes (HOPE 3).

Divided the section 202 program into separate programs for the elderly and disabled and revised the elderly program to provide capital grants and operating assistance rather than loans.

Established the Shelter Plus Care program to couple housing assistance with supportive services for homeless persons with disabilities and their families. Established formula grant program for states and localities to address the housing needs of persons with AIDS.

The Housing and Community Development Act of 1992

Established Youthbuild Program (HOPE 4) to provide training and employment opportunities to young adults by involving them in rehabilitation and construction of low-income housing.

Established new program to revitalize severely distressed public housing by providing planning and implementation grants for rehabilitation.

Revamped the HOME program by eliminating restrictions on new construction and loosening match requirements.

Established a comprehensive planning and assessment process of the financial and physical conditions and needs of multifamily and elderly housing properties.

Amended McKinney programs to require recipients to involve homeless individuals in constructing, renovating, maintaining and operating assisted facilities. Established the Safe Havens for Homeless Individuals Demonstration program to assist people who are seriously mentally ill who are unable or unwilling to participate in mental health treatment programs in a 24-hour residence.

The HUD Demonstration Act of 1993

Created public-private partnerships with pension funds to provide incentives for more than one billion dollars of new investment to produce affordable housing units.

Expanded rental assistance and counseling to help eligible low-income families move from high-poverty areas to communities where poverty is less concentrated.

Encouraged cities to build new partnerships and develop creative strategies to deal with the crisis of homelessness.

Enhance the organizational and program capacity of community development corporations to produce and manage affordable housing and generate jobs and economic development in low-income neighborhoods.

Despite the breadth of its programs' impacts, HUD is not large, as federal departments go. While critics may portray it as a massive bureaucracy, its 13,300 employees make it the second smallest cabinet department (after the Department of Education). HUD is dwarfed by the Departments of Agriculture and Health and Human Services (HHS), each with more than 120,000 employees, and Veterans Affairs (VA), with more than 220,000.

HUD does manage significant amounts of money. It has fiscal year 1994 budget authority and outlays of about \$25 billion, and management responsibility for more than \$400 billion of FHA insurance and more than \$400 billion of GNMA securities outstanding.

HUD'S LIMITED ROLE IN THE NATION'S COMMUNITIES

Though its programs cover broad areas, HUD is an "ambassador without portfolio" in some fields where its name implies the department would have a role. Among the responsibilities HUD does not have are: taxes and tax policy; housing programs of the VA, Farmers Home Administration (FmHA) and others; housing portion of welfare payments; mortgage banking regulation; social services; infrastructure development; and urban planning.

Taxes and Tax Policy. The tax expenditures for interest deductions on mortgages constitute a subsidy to the middle and upper income population that is larger than all the combined housing subsidy payments to the poor. The Tax Reform Act of 1986 eliminated or curtailed many tax shelters in multifamily housing and thus eliminated incentives for investors to put money into such housing. Tax policy has had more effect on housing policy in this country than all the grant, loan, and insurance programs of HUD, VA, and FmHA combined. The U.S. 1995 budget³ shows \$93 billion dollars for the outlay equivalent of tax expenditures for housing. The low-income housing tax credit, administered by the Department of the Treasury, is a major housing program in itself.

Other Housing Programs. In addition to VA and FmHA housing, the Bureau of Indian Affairs administers programs for Native Americans. The Department

of Defense runs a substantial housing program for military personnel. Some agencies, such as the Forest Service and the National Park Service, also have authority to provide housing to employees under certain circumstances.

Housing Portion of Welfare Payments. Public housing and other forms of subsidized housing are viable only when the rent is paid. Much tenant income for the income ranges served by HUD comes in the form of welfare and Supplemental Security Income (SSI), administered primarily through HHS.

Social Services. The viability of the housing programs and the solution to many of the nation's urban problems relate to programs dealing with employment, substance abuse, education, crime, health services, counseling programs, and the like. While some social service activities are authorized for HUD, these major social service activities of the government are managed by the Departments of Labor, Justice, Education, and HHS.

Infrastructure. The Department of Commerce's Economic Development Administration (EDA) provides financial assistance for planning and constructing facilities needed to alleviate unemployment in economically distressed areas and regions, and the Rural Electrification Administration funds many economic development projects. The roads, railways, and airports programs of the Department of Transportation (DOT) greatly affect where people live and the value of real estate. HUD programs do involve some infrastructure activities, of course, but the bulk of urban infrastructure is financed and managed outside of HUD.

Planning. HUD has no urban planning program. The largest federal urban planning program is in the Department of Transportation.

Regulatory Policy. Capital standards for bank loans for multifamily housing are set by various agencies in the banking regulatory infrastructure, such as the Federal Deposit Insurance Corporation. Capital standards for the Federal National Mortgage Association and the Federal Home Loan Mortgage corporation are set by the Office of Federal Housing Oversight.

Not only do other federal entities operate related programs, many of these programs draw on a mix of federal initiatives. For example, a multifamily property may have layers of subsidies--FHA insurance on a Section 8 project (both HUD programs), possibly with a tax credit (Department of the Treasury). An EDA project (Commerce) may get capital from a Small Business Administration loan and be part of a broader, CDBG-funded project (HUD). Only in the rarest of circumstances do the federal agencies coordinate these efforts.

PERSPECTIVES ON HUD'S ROLE

An Urban Institute Report⁴ explores the scope of HUD's responsibilities and the extent to which other departments may simply be missing the programs that are in HUD. The report argues that a change in the purpose of federal housing programs may require a different method of treating such programs. The report states:

For most of its 50-year history, housing assistance policy has been dominated by the view of decent housing as an end in itself. However, a recent shift in the policy debate on housing assistance, reflecting similar debate on welfare reform, has moved from a focus on how best to reduce poverty to the question of how best to reduce economic dependency

This general reorientation of the policy debate implies a sea change for housing assistance policy. If decent housing is now viewed as a part of the means to an end rather than as an end in itself, there is no justification for the separation of the Department of Housing and Urban Development (HUD) housing assistance from an overall package of income assistance, job training, health, nutrition, and other programs designed to help the poor move from poverty to economic independence. Moreover, the current system of providing housing assistance through two different channels that use very different eligibility and housing standards--HUD's housing assistance and welfare shelter allowances programs under the Department of Health and Human Services and state and local agencies--is unfair, ineffective, and inefficient.

Anthony Downs, a Senior Fellow at the Brookings Institution, described HUD's problem as one of "multiple constituencies and multiple missions,"⁵ going on to explain that: "One of HUD's basic problems is that it has several different constituencies with very different needs and problems. Each constituency thinks HUD has a main mission serving its own interests." He listed the major constituencies as:

- The real estate industry which in turn has several major parts such as home-builders, realtors, savings and loans, banks, insurance companies, developers, et al;
- Middle-income households who make use of financial instruments aided by FHA, GNMA, FNMA, or FHLMC;
- City governments;
- Community-based development organizations;
- Low-income households in need of financial assistance;

- Minority groups within cities; and
- Public housing authorities.

A variety of groups speak for these constituencies, and they may not all share the same interests. For example, the Council of Large Public Housing Authorities (CLPHA) has some interests the same as--but many quite different from--the majority of public housing authorities that are relatively small and represented by the National Association of Housing and Redevelopment Officials (NAHRO). State governments and state housing agencies are also major actors with many interests different from those of cities and counties. Groups representing providers to the homeless may have interests different from those of the housing providers. Homeless provider groups may differ with each other. And so on.

A HUD compilation shows that 97 major and minor national interest groups deal with HUD. This listing does not include the myriad of local groups that may also play a role on the national scene. The influence of different groups with different interests can be seen in much of HUD's legislation.

The many users of HUD programs with whom NAPA spoke dealt with diverse subjects, with varying degrees of passion, and often in quite specific detail. The most common observation was that the world has changed and HUD has not. One of the ways the Academy panel addressed that subject was through the analysis it commissioned from Dr. Rachel Bratt of the Department of Urban and Environmental Policy at Tufts University. She examined the role of HUD in housing and community development systems, and her paper provides some historical context, information on current concerns and roles, and her own thoughts on future options for HUD.

Dr. Bratt's paper supports the thesis that HUD is not the major player--perhaps not even a major player--in the areas for which it is responsible. Dr. Bratt further suggests that HUD is expected to serve huge national needs but receives inadequate support and funding. Among Dr. Bratt's conclusions are:

- An increasing emphasis on the needs of special population groups (such as the elderly or homeless) means HUD must coordinate its programs with numerous other agencies, especially social service agencies of many varieties. In fact, one special needs group, the homeless, has been named the top HUD priority.
- A change over the years to community- and resident-based approaches to housing and community development is reflected in current community empowerment efforts.
- A dramatic change has occurred in affordable housing assistance from a construction-oriented approach to income assistance. HUD cannot be a *one stop*, housing center. Instead, there are multiple (or patchwork) financing sources, an increased role for state and local governments and nonprofit community-based organizations, and a decreased role for the for-profit community. The growth in providers has also been accompanied by a new emphasis on management and

services--creating the need for even more coordination of self-sufficiency efforts among different agencies.

- The number of public-private partnership organizations has been increasing, in part due to cutbacks in federal funds.
- The major partnership approach continues to be through the federal tax system. Over the past decade, changes in tax incentives have significantly reduced HUD's role.
- Foundation programs and foundation-sponsored intermediaries are now key components of housing and community development systems. The rise in this form of activity is attributed to "the malaise within HUD and the lack of funding." Corporate-philanthropic interest will continue to increase "despite the new dedication in HUD to its mission."
- Nonprofit organizations--community and non-community based--have emerged during the last two decades as major players in housing and community development systems. Most of the 2,000 nonprofit community development programs in the United States are involved in housing. The main reason for their growing participation is the enormous need for housing in an era of federal cutbacks.
- Federal funding and assistance for nonprofits has been variable, with minimal or no direct support currently available. Nonprofits receive 15 to 25 percent of CDBG and HOME funds allocated to local governments, but, because the funds are allocated through local governments, the nonprofits themselves have virtually no contact with HUD.
- During the time that HUD's presence diminished, an increasingly important role has been played by state and local governments, government-sponsored enterprises, private financial institutions, and innovative local lending programs. In many states, the housing finance agency is significantly more prominent than HUD in funding projects and in spearheading innovative programs.

The Academy panel also convened a roundtable discussion on housing and community development issues. Some points made in that group's discussion are:

- A major issue that needs to be addressed is HUD's mission. Expectations about HUD are out of line with reality.
- HUD administers too many programs, given the resources and capacity HUD has at its disposal.
- It is time to rethink the nature of the institutional role of HUD as it moves from a service delivery institution to a catalyst for programs at the local delivery level.

- HUD can carry out its goals only as a part of a cluster of federal agencies working together within a broad strategy.
- New approaches being developed at the community level will need to be looked at within the broad structure of region.

HUD'S PERFORMANCE DEFICIT

Given its varied statutory mandates and its many methods for attempting to fulfill those mandates, how well prepared is HUD to meet its legislative objectives? In government, as in business, mission must be matched by human and other resources necessary to accomplish that mission.

The general response from the users of HUD's programs is that HUD lacks the staff to carry out its assigned functions. Some observers contend that even if HUD has sufficient numbers of people it does not train its staff sufficiently to do their jobs, nor does it deploy people correctly. (These issues are addressed more thoroughly in Chapters Four and Five.)

Within the department, numerous Office of the Inspector General (OIG) audit reports cite staffing-related deficiencies and weaknesses. (See Chapter One.) Other internal HUD analyses⁶ cite massive staffing declines between 1980 and 1992 relative to HUD's mission and business requirements and a three-fold increase in the number of HUD's mandated programs and activities during the same period. The same analyses cite an ongoing "performance deficit" not just in terms of absolute numbers of staff to do the work but also in terms of lowered performance and productivity and severe skill imbalances. There is a perception--from inside and outside of HUD--that the department does not have sufficient resources and does not well utilize those it does have to do its job.

One concern of Congress is that HUD is not using all the resources Congress appropriates. According to the fiscal year 1995 budget, HUD did not use \$2.2 billion of its fiscal year 1993 section 8 public housing subsidy funds--an amount equal to over 20 percent of what it had available for those programs. The entire \$300 million appropriation in 1993 for the revitalization of severely distressed public housing went unused along with several hundred million dollars in other HUD grant programs. The perception among some congressional staff is that HUD does not have the administrative capacity to use the money it has.

HUD'S Efforts to Address Its Performance Deficit

Well aware that he inherited a department with problems, the secretary said, "What we've chosen to do here is in some sense less glamorous than the traditional Democratic way. We're not going to put up a whole bunch of new programs for experimental approaches. What we have to do is attend to the core business of the department."⁷

In April 1993 testimony before the Senate Committee on Banking, Housing and Urban Affairs, Secretary Cisneros presented the three processes underway in the early months of the administration.

- Confronting a backlog of inadequacies as presented in GAO and HUD inspector general reports in areas such as financial systems, control systems, and organizational structure.
- Reinventing HUD, going beyond just solving the backlog of problems, to considering what the department's mission should be.
- Discussing the overarching values for changing life in America's cities, not just reinventing HUD but, in some sense, America's urban areas.⁸

Taking Specific Steps

When the Academy panel began its work in the summer of 1993, HUD had a three-tier organization: headquarters, regional offices, and field offices. Headquarters had four program offices: Community Planning and Development, Fair Housing and Equal Opportunity, Housing/Federal Housing Administration, and Public and Indian Housing. The assistant secretaries who headed each program area set policies, established procedures, allocated staffing to the regions, and exercised technical supervision over field counterpart organizations. The assistant secretaries did not have the authority to set priorities for those field staff who worked on their programs, because these staff reported through their supervisors to the field office manager rather than to headquarters.

Under this decentralized management structure, regional offices supervised the field offices in their geographic area, and field office managers reported through regional administrators. These administrators reported into Washington to the assistant to the secretary for field management.

As the Academy panel's assessment began, Secretary Cisneros and his senior staff were undertaking their own appraisal of HUD and its programs. The secretary wanted to know how his new leadership team, working with HUD's career staff, could make the department a more effective organization that delivered programs more responsibly and responsively to communities throughout the United States.

Part of these efforts included forming the HUD Reinvention Task Force, which had a Management Excellence Team under the assistant secretary for administration and a Policy and Program Review Team under the assistant secretary for policy development and research. Two other task forces addressed training and systems development. HUD headquarters also solicited suggestions from HUD's clients and staff across the nation. (For more on the HUD reinvention efforts, see Chapter Four.) Among the recommendations in a Reinvention Task Force July 1993 report, *Recommendations for Management Improvements*, was that HUD could achieve greater

operating efficiencies if it "consolidated certain program and administrative processing activities that are currently conducted inefficiently by Regional and Field Offices as well as Headquarters."⁹

Concurrent with HUD's internal studies, President Clinton announced the National Performance Review (NPR), which was headed by Vice President Gore. The NPR principles are:

- Cutting unnecessary spending;
- Serving customers;
- Empowering employees;
- Helping communities solve their own problems; and
- Fostering excellence.

Many NPR recommendations affect governmentwide functions such as procurement and personnel. The administration's effort to deregulate and delegate these highly regulated activities would have a major impact on HUD. Although desirable in that such changes would give line officials greater autonomy in using resources to meet program needs, the proposed changes are so large they may cause some initial disruption and uncertainty. This possibility, too, has become part of the environment in which Secretary Cisneros is attempting to transform HUD into a more effective institution.

Of the 10 NPR recommendations specific to HUD, nine concerned program initiatives and the other called for streamlining HUD's field operations. Under a five-year plan, HUD was to eliminate all 10 regional offices, pare down its 80 field offices, and cut its field staff by 1,500 people. HUD said this was to be a cut in total staff, rather than field staff.

The secretary issued, in October 1993, *Creating Communities of Opportunity: The Program and Management Plan*.¹⁰ Most of the 43 priorities expressed program goals, but 11 were geared to management improvement. These included: improve departmental administration; direct support efforts to help achieve the department's mission and the secretary's priorities; eliminate duplicative elements of the regional, field, and headquarters organizational structure; and invest in human resources through improved training and personnel practices. A number of these topics are addressed in Chapters Four and Five, which present information on HUD's organization and its management systems.

THE BOTTOM LINE: HOW CAN HUD BE STRUCTURED AND MANAGED TO FULFILL ITS MISSION?

The crisis in confidence and performance at HUD was inherent in its creation in 1965. Legislative enactments and changing secretarial priorities since then exacerbated the challenges of the mixed missions intrinsic in HUD's work. While the mission is not now in flux, the broad

organizational and management changes underway and requests for new programs make an assessment of HUD's ability to fulfill its mission a moving target.

In the rest of this report, the Academy panel examines HUD's mission in the context of the secretary's program and management priorities and actions underway to achieve them.

Endnotes: Chapter Two

1. Public Law 89-174; 79 stat. 667; 42 U.S.C. 3531 et seq.
2. Emmette S. Redford and Marlan Blissett, "Housing and Urban Development: A New Commitment to Urban Problems," which appears as Chapter Two in *Organizing the Executive Branch--The Johnson Presidency: An Administrative History of the Johnson Presidency*, p. 23.
3. Office of Management and Budget, *Analytical Perspectives*, a separate volume of the federal *Fiscal Year 1995 Budget*, Table 6-4.
4. Sandra J. Newman and Ann B. Schnare, *Beyond Bricks and Mortar: Reexamining the Purpose and Effects of Housing Assistance*, The Urban Institute Press, Washington DC, 1992.
5. Anthony Downs, Senior Fellow, Brookings Institution, Statement presented before the HUD/Mod Rehab Subcommittee of the Committee on Banking, Housing, and Urban Affairs, U.S. Senate, 101st Congress, 2nd Session, Volume I of II, Hearings of Jan. 30, 1990, p. 21. 55-65.
6. Office of the Assistant Secretary for Administration, "Discussion on Resource Management issues," HUD paper prepared for a meeting with the Office of Management and Budget on October 13, 1993.
7. Cisneros's Obsession: Reinventing HUD, *Government Executive*, July 1993. p. 25.
8. Secretary Henry Cisneros, Testimony before the Senate Committee on Banking, Housing and Urban Affairs at the hearings on "The State of Urban America," April 28, 1993, pp. 9-10 and 13-14.
9. Department of Housing and Urban Development, Reinventing HUD, March 2, p. 3.
10. Department of Housing and Urban Development, *Creating Communities of Opportunity--Priorities of U.S. Department of Housing and Urban Development: Program and Management Plan*, October 1993.

CHAPTER THREE

HUD'S PROGRAMS AND COMMUNITIES THEY SERVE

An almost exponential growth in the number of HUD programs reflects the complex problems with which the department must deal and the many constituencies that appeal to Congress to create programs targeted to their needs. Equally forceful in refocusing the mix of missions have been HUD secretaries, each of whom has adjusted departmental priorities to reflect their goals and values. A consequence of having so many targeted and narrowly-focused initiatives is that communities confront a confusing array of programs, each with their own application and reporting requirements.

This chapter examines the growth and diversity of HUD programs in the context of declining resources that have left the department with program responsibilities well beyond its capacity to deliver. The chapter also discusses HUD's dichotomous business and community roles. To do this, the Academy sought comment from many of HUD's communities of users, including state and local officials, for- and non-profit community organizations, and public and special interest groups. The panel's recommendations are geared to creating a more rational paradigm for HUD, one that enables it to capitalize on its diverse communities rather than fracture because of their differences and sometimes competing interests.

PROGRAM GROWTH IS ONLY PART OF THE ISSUE

Among the issues HUD staff, the varied communities it serves, and members of Congress consistently raise is that HUD has too many separate programs. Many programs require communities to respond to separate Notices of Funding Availability (NOFAs). All have handbooks or regulations that provide detailed operating instructions.

Between 1980 and 1992, HUD's statutory mandates increased from 54 to just over 200 programs. Since 1990, Congress has created or substantially changed the mission of 67 HUD programs, although 25 of these had no appropriations as of fiscal year 1994.¹ Congress did consolidate several programs in 1990 when it created the HOME Investment Partnership program, which fosters local housing strategies designed to increase homeownership and affordable housing opportunities for low- and very low-income Americans.

While the number of programs HUD administers is burdensome, there can be effective strategies for departmental growth. Such a strategy would entail:

- Obtaining advice and comments from the department's communities of users so that program changes are designed to meet the most urgent housing and community development needs in the nation.
- Designing the new programs so that they complement or supplement existing programs in a rational manner.

- Grouping similar purposes or activities within HUD.
- Providing adequate numbers of staff to manage the new work, eliminating other work, or introducing technology to permit work to be done by fewer people.
- Streamlining program operations so the mix of programs does not entail added administrative burdens for the users or HUD.

Additions to the HUD program menu were not so neat. As new programs were added between 1980 and 1992, field staff decreased by 1,664 full-time equivalents (FTE) (13 percent) and headquarters staff decreased by 932 FTEs (21 percent). There was also the natural tension between a Democrat-controlled Congress and a Republican administration. During the Reagan administration, this tension was heightened by the perception that its goal was to reduce the federal government's role in the nation's communities. Congress saw the clearest way to make HUD proactive was to authorize more programs targeted to specific purposes or populations.

The fact that the administration proposes or Congress creates programs without eliminating similar ones or providing a mechanism to merge them with the newer programs means that HUD must still maintain expertise in some very old programs. There are some post-World War II FHA activities that HUD still oversees, even though they may not have received new funds for 20 years.

HUD's fiscal year 1995 budget proposes funding for 18 programs that did not previously receive funding in a HUD budget. Several were established by the 1990 and 1992 Affordable Housing Acts and one, the Emergency Food and Shelter Program, is transferred to HUD from the Federal Emergency Management Agency (FEMA). Others reflect first-time funding for programs announced in the past year, such as Neighborhood Leveraged Investments for Tomorrow (LIFT) and the Enterprise Communities and Empowerment Zones. Table 3-1 lists the 18 programs that would received first-time funding through HUD's fiscal year 1995 budget.

HUD programs often cut across program lines. For example, FHEO's field staff reviews all marketing plans for HUD-insured multifamily dwellings, and rates all proposals for competitive programs. As more HUD funds are awarded by competition, FHEO's workload increases. The Lead-Based Paint program deals with the number one environmental health problem affecting U.S. children. Among HUD's responsibilities is a prominent role in educating the owners of rental properties about the dangers of this paint, which was only outlawed in 1978 and is thus in many buildings. It flakes into particles children may swallow, and people--especially children--need to be protected from the paint as it is removed. Housing management in field offices implements the statutory requirement that all residents in all HUD properties get the brochures on the Lead-Based Paint Program. In Baltimore, there are 600 properties with more than 135,000 residents. Informing all of these people is an important responsibility, yet the workload associated with this and the impact of the program is not easily shown in budget or staffing estimates.

**Table 3-1
Programs Proposed for first-time HUD Funding
in the Fiscal Year 1995 HUD Budget**

No.	NAME OF PROGRAM	DOLLARS (\$000s)	Staffing in FY 95 Budget
1	Section 8 Rental Assistance for the Homeless	514,275	No mention
2	Section 8 Housing for the Disabled	171,425	No change
3	Section 8 Pension fund units	514,275	No change
4	Tenant Opportunity Program (from PH Modernization funds)	85,000	No mention
5	National Homeownership Trust	100,000	No mention
6	Single-Family insurance for Revitalization Areas	1,962,212	Staffing reduced
7	FHA Direct Loans for the Purchase of Multifamily Housing for Neighborhood Revitalization	200,000	Increase of 230 in MF
8	FHA Multifamily Bridge Loans	200,000	See above
9	Homeless Assistance Grants (program expansion, including transfer from FEMA)	1,250,000	Staffing reduced
10	Neighborhood LIFT	200,000	New CPD programs get +17 staff years
11	Enterprise Communities and Empowerment Zones	500,000	
12	Community Viability Fund	150,000	
13	Economic Revitalization	150,000	
14	Colonias	100,000	
15	Metropolitan-Wide Strategies	24,000	No mention
16	Grants for Economic Development Centers	25,000	No mention
17	Mortgage Lending Discrimination and Property Redlining Initiatives	2,000	Contract staff
18	President's Fair Housing Council	310	Contract staff

(NOTE: Excludes Section 235 financing and funding increases)

Complicating the growth in numbers of programs has been HUD's preferred method for delivering technical assistance on programs. Rather than providing, for example, assistance to a community on how to further economic development, HUD provides assistance geared only to individual programs. In addition, the technical assistance is generally provided by contractors, in large part because of the FTE limits OMB and Congress have placed on the

department. Thus, HUD staff have been in the awkward position of having their grantees, who have received the technical assistance training, know more than they do about the new program HUD is administering. This delivery mechanism seems out of synch with the current administration's goals of integrating HUD's activities in the nation's communities. It also costs attendees more, because although the short technical assistance programs involve no tuition, attendees have to pay for their own travel and per diem to attend the sessions. The more separate sessions there are, the more travel and per diem expenses the attendees incur.

EACH SECRETARY AFFECTS THE PROGRAM MIX

As forceful in changing HUD's perspective as legislation have been HUD secretaries, each of whom has adjusted departmental priorities to reflect their goals and values. President Bush ran on a platform that included fully funding the McKinney Act homeless programs. Secretary Kemp raised HUD's level of effort in this area, concurrent with his strong focus on addressing housing problems by expanding homeownership. Secretary Cisneros has said alleviating homelessness is HUD's number one priority. He has also focused much attention on a multi-department effort to fight crime in public housing and in fully enforcing the nation's fair housing laws.

The document, *Creating Communities for Opportunity--Priorities of HUD*, contains nearly 40 non-statutory initiatives spread across HUD's program areas. Staff throughout HUD provided ideas for this and other Clinton administration initiatives, and are enthusiastic about many of them. However, no staff were added to develop or coordinate the new work.

Several specific programs formed the core of the administration's first-year legislative priorities, and HUD developed them in cooperation with Congress. These are:

- The Community Investment Demonstration Program, which created public-private partnerships with pension funds, thus leveraging HUD subsidies to provide incentives for more than one billion dollars of new investment to produce affordable housing units.
- The Moving to Opportunity program expansion, which provides rental assistance and counseling to help eligible low-income families move from high-poverty areas to communities where poverty is less concentrated.
- The Innovative Homeless Fund, to encourage cities to build new partnerships and develop creative strategies to deal with the crisis of homelessness.
- Partnership with the National Community Development Initiative (NCDI), to build the organizational and program capacity of community development corporations to produce and manage affordable housing and generate jobs and economic development in low-income neighborhoods.

A consortium of private foundations and one large corporation match HUD dollars on a three-for-one basis, leveraging an additional \$60 million from the private sector to supplement HUD's \$20 million contribution.

HUD's 1994 priorities are most comprehensively expressed in its proposed Housing Choice and Community Investment Act of 1994. Title I contemplates reorganizing the McKinney Homeless Assistance Act programs into a comprehensive program that reflects HUD's philosophy of a continuum of care for homeless individuals. Title II provides cross-cutting authorizations for public and Indian housing programs and offers some important program changes, among them establishing a direct loan program to modernize public housing and providing replacement housing for units that cannot be made viable. The proposal would also facilitate private investment in modernizing public housing projects by permitting the private investor to use low-income tax credits. Title III deals with homeownership, including establishing new insurance authority under the National Housing Act, to provide favorable financing terms (100 percent financing, plus insurance written for 100 percent of the appraised value of the property) for eligible mortgagors who purchase affordable housing in revitalizing areas.

Other titles of the complex proposals do such things as establish Economic Opportunity Centers and promote choice in residency (Title IV), establish a federal cost cap and simplify administration of the Housing Preservation Act of 1987 (Title V), create the Metropolitan Areawide Strategy demonstration program to expand fair housing programs (Title VI), and stimulate public and private investment in community-building enterprises in disadvantaged communities through the Neighborhood Leveraged Investments for Tomorrow (LIFT) program (Title VII). Title VIII deals with management reform in several programs, including section 8, public housing inspections, specific refinancing programs, and enhanced CDBG management information systems.

The lengthy draft bill and accompanying explanation and justification documents reflect extensive research and policy development. Not yet available is information on resources required to operate these programs or how resources in other HUD programs might be modified to adequately operate the new initiatives.

DOING MORE WITH LESS

While the discussion of HUD's staffing levels is in Chapter Five, it is not possible to discuss the growth in programs without considering the impact of decreases in numbers of staff. This has translated into frustrations for users of HUD programs, who complain that HUD cannot, for example, quickly process applications for a shelter program or approve an underwriting submission in a time period that is meaningful for a real estate transaction.

In discussions with users of HUD programs, among the points discussed was that continually more work was being done by contractors rather than HUD staff, and that HUD's core program knowledge in some areas was being depleted. HUD staff and those who used its programs expressed concern that soon there would be few experienced HUD staff to educate new contractors after the expected contractor turnover.

Table 3-2 presents the increase in programs and workload for public housing in HUD's Region V (six midwestern states) for fiscal years 1985 and 1992. Public housing staff managed \$668.5 million in 1985 and \$1.67 billion in 1992. There were also 17 new programs, and staff throughout the region decreased by four percent (variations were greater in some offices). Several of the new programs deal with the broad network of support service needs--family self-sufficiency, youth sports, drug elimination, and family unification. The region's increase in programs occurred as its travel dollars decreased by 27 percent. As a result, HUD staff could not spend much time in the communities that received the funds. (For more on the overall decrease of departmental travel funds and how that affects programs, see Chapter Five.)

When the Academy staff asked field office staff to give examples of doing more with less capacity, there were many. Three examples follow.

First, a midwestern CPD director of a field office described the impact of program growth and staffing decreases:

- [Our field office] CPD programs grew from \$68 million in 1984 to \$100 million in 1993. In 1984, we had 19 CDBG grantees and about 10 additional UDAG small cities. We had six operative programs, all administered by units of local governments, mostly our entitlement jurisdictions and the state, except for small cities UDAG.
- In 1993 we had 20 CDBG grantees, an additional 23 homeless grantees, and three nonprofit HOPE grantees. We had 10 operative programs and held competitive funding cycles for five to six categorical grants, virtually unheard of in 1984 except for UDAG. The majority of our grantees are now nonprofit organizations.
- . . . in 1983 [this field office's] CPD group had 22 staff organized in three teams. There were six clerical/program assistants, seven reps, five technical specialists (rehab, finance, environment). In 1993 there are 13 staff organized in two teams.
- There are six reps, three clerical/program assistants, and one technical (environment). We have gone from two financial analysts to none at a time when our dollars have increased, the number of high-risk grantees have increased, and a number of new program systems have been introduced. Untrained reps and program managers have had to assume finance duties while also assuming management of the six new programs we acquired. We have gone from two rehab specialists to none while acquiring a major housing program in HOME. All staff are doing "double" duty, including occasional clerical functions.

**Table 3-2
Region V-Chicago: Comparison of Workload to Staffing Resources in Public Housing**

PUBLIC HOUSING PROGRAMS	Fiscal Year 1985	Fiscal Year 1992
Troubled PHAs	7	13
Total Units (All)	351,067	414,070
Performance Funding System (PFS)	\$241,199,363	\$369,383,489
Section 8 (All Programs) Continuing	335,637,160	691,806,910
CIAP	91,714,883	85,992,506
Comp Grant	0	353,439,889
Drug Elimination	0	20,695,797
HOPE I Planning	0	2,116,729
HOPE I Implementation	0	2,551,363
Youth Sports	0	1,454,142
Resident Management	0	725,000
Lead-Based Paint	0	1,694,030
Shelter Plus Care	0	303,408
Mod Rehab Single Room Occupancy	0	1,487,184
Family Unification	0	833,023
Elderly Independence	0	19,760,000
VA Supportive Services	0	142,800
Family Self-Sufficiency	0	27,744,361
Section 8 (New)	(Included in total)	38,733,375
Voucher (New)	(Included in total)	13,902,485
Section 23	Data not available	* 3,572,896
Mutual Help	Data not available	* 999,339
Turnkey III	Data not available	* 1,985,085
MROP	0	34,233,287
Section 5H	0	464,892
Public Housing Development	Data not available	* 28,123,850
Mod Rehab	(Included in total)	(Included in Total)
PHMAP	No	Yes
SMIRPH	No	Yes
TOTAL PROGRAMS	10	27
TOTAL DOLLARS (Not Including LR Devp)	\$668,551,406	\$1,667,464,670
STAFFING ALLOCATION TOTALS	198.7	** 191.0
TOTAL TRAVEL DOLLARS	*** \$125,805	\$92,200

* Amounts not included in Total Dollars since comparative data not available.
 ** Represents on-board staff as of January 22, 1994—indicates a 4% decrease in staff from FY 1985.
 *** Travel dollars for FY 85 not available—dollars shown are FY 87. Regional travel allocation not included in totals.

In the second example, a mid-Atlantic office used to have six employees in property disposition and handled 60 single-family properties and one multifamily property. Now there are five employees and 430 single properties and four large multifamily properties. In addition, the 1988 McKinney Act amendments gave state and local governments the right of first refusal to purchase HUD properties. They and non-profit groups that assist the homeless, as well as homeless individuals themselves, must be offered HUD properties before HUD makes them available to the general public and potential commercial buyers. No one (in this or other offices) thought the new sales policies were inappropriate, but NAPA staff heard a number of comments that it is now more staff-intensive to sell a property than it was previously.

In the third example, because there is no secretary for one field offices's fair housing program, the division director publishes his name and telephone extension in all the fair housing literature. He must handle all calls that come in, regardless of whether they need his level of attention or whether HUD is the appropriate agency to address the caller's issue. In a short-staffed agency with increasingly more programs, staff shortages have direct impacts every day.

CONGRESS MAKES ITS VIEWS KNOWN

A September 1993 Senate Appropriations Committee Report that accompanied the fiscal year 1994 appropriations bill for HUD highlighted the number of congressionally-authorized programs at HUD. The Senate committee report directed HUD to recommend substantial program consolidation and simplification as it prepared its fiscal year 1995 budget and a comprehensive housing authorization bill. The committee tasked each major HUD program office with developing efforts to achieve this consolidation objective.

Taking a somewhat different approach is the House Committee on Banking, Finance and Urban Affairs. Its chair introduced, in February 1994, the Housing and Community Development Act of 1994 (H.R. 3838). The bill includes the authorizations required for most major HUD programs. The bill also contains initiatives the committee chairman has championed, including a revision to the Emergency Homeowners Relief Act to provide assistance to homeowners facing foreclosure and loss of their homes, and a merger and rewrite of the section 8 certificate and voucher programs. The merger, initially proposed in 1992, is designed to protect low-income families and relieve housing authorities of some administrative burdens. Another new program is an economic grant program that would be part of the section 108 loan guarantee program, and provisions that will foster mixed-income public housing communities.

The committee chairman notes prospects for increased or even level funding are quite bleak. He welcomes the energy that administration staff, NAHRO members, and rural housing advocates have shown in being willing to do more with less.

HUD Responds to the Senate Concerns and the Need to Streamline

HUD is well aware of not only the growth in its programs but the need to streamline management and program operations. Many of the HUD staff NAPA staff interviewed cited

these problems and the theme was repeated throughout HUD's reinvention effort, which involved many sessions with HUD staff and users of its HUD programs.

As part of HUD's reinventing initiative, the secretary directed that, where possible, programs will be consolidated, streamlined, and redesigned to reduce red tape and provide maximum flexibility to the local level. HUD is reviewing the number of handbooks and other directives and notices in effect (more than 1,100, 350 of which are detailed handbooks). President Clinton's stated goal is to reduce by half the written program requirements, and HUD has committed to do this. Many of the department's efforts to streamline work processes are described in Chapter Four.

In response to the Senate Appropriations Committee Report, one of HUD's first steps was to analyze the mix of programs. HUD staff in Policy Development and Research (PD&R) completed a brief survey on HUD's programs. NAPA staff analyzed their results. Of the 202 non-duplicated programs on the Senate list, 89 (44 percent) were active, independent programs. Of these 89, one-third are insurance programs without an appropriation. Another 46 programs (23 percent of the 202) are active programs funded through set-asides. Another 14 programs (7 percent of the 202) are rules with no funding associated with them, and another 28 programs (14 percent of the 202) are for custodial activity relating to previous appropriations or remaining insurance in force. Twenty-four (12 percent) were inactive--no appropriation, insurance writing, or staff activity. Though still a large number, these figures demonstrate that the active number of congressionally-authorized programs is closer to 150 identifiable programs and set-asides.

In the *HUD Transformation Report*, HUD stresses that the department's "profusion of programs masks its essential mission: to create communities of opportunity. Unless HUD pares down its activities and focuses management attention and control on its 'core business,' it will ineffectively deliver resources and opportunity to communities across the country."² The final document will list total numbers of programs to consolidate, streamline, or simplify. This version does conclude that the main HUD activities fall into 20 key program areas. Within these are seven activities that consume the vast majority of the department's budget. These are:

- Public Housing Development;
- Public Housing Modernization and Urban Revitalization Demonstration;
- Section 8 Program;
- Community Development and Block Grants and HOME;
- Homeless Programs;
- Single- and Multi-Family Property Disposition; and
- Single- and Multi-Family Mortgage Insurance Program.

The draft makes the case for maintaining a number of smaller, individual programs. For example, it stresses that there are limits to the amount of consolidation and streamlining to undertake without jeopardizing services to HUD's most needy program recipients. Some smaller programs, such as the National Community Development Initiative (NCDI) and the pension fund allow HUD to leverage scarce federal resources beyond the core formula programs. Programs such as NCDI and Youthbuild also target housing activities or sectors that are in their earliest stages. Some activities enable HUD to respond to congressional mandates or test and assess innovative methods to deliver housing services. For example, the Colonias program (which

operates only along the U.S.-Mexico border) addresses special housing and infrastructure issues that CDBG cannot.

HUD indicated that problems arise not from the number of programs over the past decade but the administrative burden associated with them. The department pledges to redesign current programs and says it "will design new initiatives in a way that minimizes administrative needs while maximizing effect. For example, the Innovative Homeless program provides HUD with the flexibility to pursue creative strategies to respond to this crisis. HUD will deliver more of its services through intermediaries like NCDI and its agents, which provide more effective housing assistance tailored to the needs of communities."

Conclusions and Recommendations on: Program Growth and the Program Mix

The growth in HUD's programs reflects several trends. First, Congress has grown accustomed to providing detailed guidance in authorization and appropriations legislation, and there is no sign this will abate. Second, federal spending constraints forced many slow-growth or no-growth tendencies in discretionary domestic programs during the 1980s and 1990s. There was not consensus to pass or an ability to fund major spending programs. More politically feasible, and not as costly, were individual programs that targeted special needs or populations, and these proliferated not just in housing and community development but in other domestic programs, such as job training.

HUD has proposed consolidating homeless programs and several community planning programs. Most other departmental efforts are more geared toward streamlining than consolidation. Does streamlining go far enough? Given current and projected resources for the department, the panel believes it is unlikely that improved management or changes to the organization structure can enable HUD to fulfill all of the missions implied in its many programs. The department may be able to do some things better, but will not be able to do all things.

The panel thinks it is unlikely Congress will consolidate HUD's programs into a few block grants, such as community development, equal housing opportunity, homelessness, and public housing. Members of Congress are elected based on their constituents' perceived value of their services, and citizens cannot correlate block grant funds with the member of Congress from their state or district. Thus, the panel did not seriously consider suggesting block grants as a broad approach for rationalizing HUD's program structure.

The panel also discussed whether to recommend a mechanism to enable HUD to propose consolidating programs periodically, perhaps every three to five years. Variations on a sunset provision are attractive. However, there is also the risk that worthwhile programs would fall victim to an unrealistic deadline or periodically have their authorization expire even though Congress and the public perceive a need to continue the program. Such a method also assumes that HUD's efforts would continue to be carved into literally hundreds of program pieces. That is not acceptable.

Congress and HUD itself can make a determined effort to reduce the numbers of programs and avoid creating new ones. This does not appear likely, however, given HUD's fiscal year 1995 budget request and draft legislation in Congress. Creating new programs without allocating specific resources for them is a sure formula for failure. Without a change in course, the growth spiral will continue.

The Academy panel's first priority is a legislative overhaul of HUD's programs. Absent this, other changes will bring only marginal improvement in HUD operations. Congress and the executive branch must work together to redefine and consolidate HUD's assorted program menu and determine whether some programs can be eliminated. Those that remain should be organized under broad mandates that permit the nation's communities to apply the funds flexibly and reduce the administrative burdens within HUD and among its program users.

The Academy panel recommends that HUD:

- ◆ **Submit to OMB and Congress a comprehensive proposal to reorganize HUD "programs" and group under them individual "activities."**
 - **A program is a group of related activities that have certain characteristics: description as a "program" in legislation, regulations or formal issuances; discrete budget and accounts; separate staff; relative permanence; and operation under rules that are distinct from those of other departmental activities.**
 - **An "activity" is an endeavor that may be separately described, but is carried on within a program and does not constitute a program, as previously described.**

The panel envisions there would be fewer than ten programs, and that these would require congressional authorization. An activity could be formed and ended through secretarial discretion.¹ Congress would be apprised of activities conducted within programs, and could suggest new activities, but would not need to authorize or terminate an activity in statute. HUD and Congress can look to the experience of the HOME program, which permits innovation without legislation.

Only a thorough assessment and revamping of HUD's programs will be in keeping with Secretary Cisneros' goals to integrate HUD's programs across the many geographic and social communities it serves. Only through such a redefinition and consolidation process will the executive and legislative branches reach a sensible balance among HUD's mission, resources, and statutory mandates.

Though the panel believes that it would be best not to add to HUD's crowded plate until the program reorganization is in place, the panel also recognizes that as Congress and the

¹ The terms "programs" and "activities" as used here are not meant to conform with the use of these terms in other legislation, such as the Budget Enforcement Act.

administration develop the comprehensive legislative overhaul of HUD's programs, there may be national problems of such scope that Congress or the secretary will want to respond by changing a current HUD program or initiating something new. The laws of physics must apply to HUD--for every action there is an equal and opposite reaction. If Congress or the secretary add a program or make major adjustments to one, they need to be very specific about the resources required to operate them.

The Academy panel recommends that HUD:

- ◆ **Estimate the resources required for legislative or administrative proposals that are expected to add to or modify HUD's program responsibilities, and specifically note whether these would be provided through additions to HUD's budget or resource shifts from existing, named, programs.**

The panel recognizes that Congress and OMB do not give equal consideration to all proposals. HUD and its committees will want to determine which proposals will receive the most serious consideration--such as those that will be the subject of hearings or some other mutually-agreed criterion. Certainly, any proposals HUD submits to OMB should contain such estimates. It is essential that proposals not be passed in authorization or appropriation legislation unless there are specific resource estimates, including whether the resource changes would come from newly allotted resources or resource transfers from other, specifically named, programs.

Flexibility should be a primary criterion in any consolidation decisions Congress and the administration reach or in any of the programmatic changes undertaken in the interim. Among the ways to ensure this flexibility are to: build in appropriate waiver provisions (statutory and regulatory) for new or demonstration programs, so that communities can quickly get them underway or make community-specific changes; provide sufficient discretionary funds in major program areas so that the secretary has a range of options for addressing the varied and changing needs of U.S. communities; and limit the number of competitively-awarded funds by providing more funds through block grants, with discretionary pools directed by the secretary or program assistant secretaries at the national level.

HUD already has authority to approve waivers of regulations in some individual programs, for specific purposes. As this authority has been delegated from headquarters and regional offices to the field staff, waivers can be granted more promptly. However, HUD does not have the kind of broad authority that the Department of Health and Human Services has, which enabled that department, for example, to waive some federal requirements so states can experiment with system-wide changes to their welfare programs. Innovation flows from creativity, and HUD needs to permit communities to develop programs that meet their distinct needs while concurrently remaining accountable as they spend federal funds.

The Academy panel recommends that Congress:

- ◆ **Permit HUD to foster innovation through broad waiver authority, similar to that of the Department of Health and Human Services, so that states can experiment with system-wide changes in housing or community development policy.**

HUD'S ROLE IN ADDRESSING THE NATION'S SOCIAL ISSUES

Many changes to HUD's agenda have broadened its mission to address the human service needs of the people who live in HUD-sponsored or funded housing. Also, Secretary Cisneros' vision and value statements emphasize the need to help people beyond ensuring basic shelter. Such programs as the Family Self-Sufficiency program or the Housing Counseling Services program may also help families get to the point that they can one day be homeowners and provide more effectively for their children. Other programs, such as the Community Partnerships Against Crime (COMPAC) (formerly drug elimination) make areas safer for residents and prevent deterioration of the facilities. Table 3-3 lists a number of HUD programs that have a social component.

Table 3-3

Partial List of HUD Programs that Have a Social Emphasis

<p><i>From the Senate Report List of 206 HUD Programs</i></p> <p>Section 202--Supportive Housing and Assistance Programs for Elderly/Handicapped Public Housing Management Assistance Program Housing Family Investment Centers Family Self-Sufficiency Program Housing Opportunities for Persons with AIDS Congregate Housing Services Program--grants for meals and other support services for elderly residents, to prevent premature institutionalization. Housing Counseling Services Program Drug Elimination Grant Program for Low-Income Housing (Now called Community Partnerships Against Crime--COMPAC) Public/Indian Housing Youth Sports Program Supportive Housing for Persons with Disabilities Supportive Housing for the Elderly Supportive Housing Programs for the Homeless Shelter Plus Care Program Section 8--Moderate Rehab for Single Room Occupancy (SRO) Dwellings Indian Public Housing Early Childhood Development Demonstration Moving to Opportunity--Assistance Program for families in high-poverty areas to move to low-poverty areas Elder Cottage Housing (ECHO)--method to provide cost-effective housing opportunities for elderly</p>

No one with whom Academy staff spoke suggested that residents of HUD-funded PHAs or insured multifamily properties should not receive the full range of services necessary for them and their families to thrive as members of their community. However, questions were raised as to whether HUD should provide these services, some of which required a social work or general human services background. The National Council on the Aging noted that, "HUD lacks the staff, resources, and expertise to carry out programs attempting to accommodate the supportive service needs of residents of projects under its programs. HHS [the Department of Health and Human Services] should assume this function on behalf of HUD."

HUD staff pointed out that as the department increases its inventory of assigned mortgage notes (those for which the secretary holds the mortgage because an FHA insurance fund paid the mortgagor when the person holding the note did not make the designated payments), its loan servicers perform some social service functions. The purpose of the assignment program is to give the individual (for single-family homes) the opportunity to work out a payment schedule

such that the loan can become current again. If they cannot, the loan goes into default, and HUD then owns the property and must evict the individual before selling it.

Some whose properties are in assignment are in the middle of short-term financial stress, and they will be able to work out a revised payment schedule. Many others, however, are in the midst of longer term upheaval, and the HUD loan servicer must continually contact them. HUD staff can refer the person to a HUD-approved counseling agency. Some needs are more immediate and, as a responsible public servant, the HUD servicer may even tell them how to get Food Stamps or another direct form of assistance. Were HUD to move to quickly take possession of the property, there would be great complaint that it was being a hard-hearted organization. The point is, even for its strictly financial programs, HUD operates in a broader social context than a private lending institution.

Homelessness as the Top HUD Priority

Secretary Cisneros' top priority on the department's list of six is to reduce the number of homeless Americans through partnerships with local governments and private-sector nonprofit groups that help people gain access to housing and the services they need. The 1987 Stewart B. McKinney Homeless Assistance Act, as amended, offers the principal statutory basis for HUD's targeted programs to assist the homeless. HUD's targeted homeless programs totaled \$571.5 million in fiscal year 1992 and are estimated to have been \$822.7 million in fiscal year 1993.

HUD programs for the homeless include:

- Shelter Plus Care Program: grants for rental assistance, in combination with support services to homeless people with disabilities. It is geared primarily to people with serious mental illness, chronic problems with alcohol and/or drugs, and AIDS and related diseases.

- Section 8--Moderate Rehab for Single Room Occupancy (SRO) Dwellings: assists very low-income homeless individuals in obtaining decent, safe, and sanitary housing in privately owned, rehabilitated buildings.
- Emergency Shelter Grants: direct shelter care, outreach/assessment activities, drop-in centers, legal assistance, rental assistance.
- Supportive Housing Demonstration Program

Transitional Housing Component: grants to public and private nonprofit entities to defray the cost of acquiring and/or rehabilitating existing buildings to house and provide supportive services to homeless people. Direct payments to fund a portion of operating costs, child care, employment assistance programs, and other supportive services for up to 5 years.

Permanent Housing Component: grants to states on behalf of project sponsors, private nonprofits, or public housing authorities to defray the cost of acquiring and/or rehabilitating existing buildings for permanent housing for

up to eight homeless people with disabilities; direct payments to fund a portion of annual operating costs and support services for up to 5 years.

- Safe Haven and Rural Homelessness Grants.
- Innovative Homeless Initiatives Demonstration Program (authorized in 1993 in Section 2 of the HUD Demonstration Act, and previously described).

HUD proposed, in its fiscal year 1995 budget request, that these programs be merged (through a change to Title IV of the McKinney Act) into a \$1.2 billion Homeless Assistance Grants program. The proposal is designed to streamline assistance to the homeless by overcoming the inherent inflexibilities in the categorical nature of the current fund distribution. It also is in keeping with HUD's continuum of care concept, which is designed to deal with the myriad of issues--not just housing--that force people onto the streets to live. Grant funds would be initially allocated to communities that can demonstrate that they have an effective plan to: comprehensively address homelessness; forge partnerships with local, private, and nonprofit providers; and improve homeless individuals' access to mainstream services and income support programs. Included in the \$1.2 billion is \$130 million proposed for the Emergency Food and Shelter program that would be transferred from the Federal Emergency Management Agency.

These proposals reflect the department's conviction that it is essential to assist not only those who are currently homeless, but also the near-homeless, who include doubled-up families or individuals in chronic poverty who could be forced into homelessness by a sudden crisis.

Though there are no exact estimates of the number of these individuals, they far exceed the conservative estimate that 600,000 Americans are homeless at any one time. A draft report--prepared by the interagency group co-chaired by Secretary Cisneros, HHS Secretary Shalala, and VA Secretary Jesse Brown--estimated that seven million people were homeless at some time during the late 1980s.³ For the first time, an administration has acknowledged the periodic U.S. Conference of Mayors report on homelessness. The 1993 version was issued late that year, at a session Assistant Secretary Cuomo attended. The report noted that 80 percent of 26 cities surveyed reported increases in emergency shelter requests, with an average increase of 10 percent. The survey identified the lack of affordable housing as the leading cause of homelessness.⁴

HUD's higher level support of homeless programs is operationalized in ways beyond the program initiatives described previously. Staff sponsored a Valentine's Day dinner in the HUD cafeteria, with the secretary and his family helping to serve food. Offices throughout the nation hold food and clothing drives, and the D.C., cafeteria is now a depository for food coupons that local homeless organizations can use to offset foods costs for their bulk purchases. Efforts were especially visible in Washington, D.C. when the problems were highlighted by the death (of natural causes) of a homeless woman who was sleeping on a bench across from the HUD building. The department responded to her death with a series of emergency grants to local organizations, and the very tangible uses of those funds were reported in HUD's daily "Today's Focus at HUD," which employees nationwide view on their electronic mail network. The lobby of the HUD building was opened to homeless people during Washington's freezing temperatures during the winter of 1993/94.

Finally, the secretary chairs the 17-member Interagency Council on the Homeless (ICH), a working group under the White House Domestic Policy Council. The department provides staff and funding for the council, which coordinates federal policy and programs regarding homelessness.

Conclusions and Recommendations on: HUD's Role in Addressing the Nation's Social Issues

Regardless of whether the president and Congress agree that HUD's many statutes should be simplified, there are issues relating to a major component of HUD's mission--to help attain the goal of a decent home and a suitable living environment for every American family. Two words stand out: home and environment. In the past, HUD's housing programs might have been considered to address the home aspect of the mission and the community development programs the environment aspect. The distinction between these two aspects has grown more complex in recent years as Congress and HUD have seen the need to, for example, not only provide funds for public housing but also to operate programs to ensure that those environments are relatively crime-free, offer child care, or are collocated with job training opportunities.

In one way or another, HUD now funds or operates domestic programs in every area except health and basic education. This role of social service provider to needy Americans is juxtaposed with the ever more complex real estate finance and community infrastructure development activities.

The homelessness issue illustrates the need for HUD's diverse missions to be integrated at the community level. Yet, for many people, homelessness is less often a housing issue than an income support or mental health issue. HUD has an important role to play to ensure that there is an affordable housing stock that is accessible to homeless individuals and that the organizations that work with these individuals can tap into resources to make this housing available. Even so, it is important to note that HUD will never solve the problem of homelessness and that the department has devoted many of its declining resources to this issue over the last few years. The panel does not wish to suggest that HUD substantially limit its efforts, but does suggest that HUD may have established an unachievable goal that is becoming a driving force behind many of its programs.

HUD's broad mix of services can be seen as an asset. However, the more complex and diverse the programs, the more sophisticated HUD's staff and management systems must be to provide the services well and the more disparate the organizations HUD must deal with to sustain these programs. The diverse agenda also raises potential users' expectations beyond a level that HUD can ever meet.

HUD must target its funds and people very deliberately. It also needs to administer its programs such that its communities of users spend their time operating programs rather than consistently expending resources to look for competitive funding opportunities and prepare applications for funds that can only be applied relatively narrowly. The Academy panel suggests that the secretary and Congress create one pool of funds for social service needs, and allocate these funds on a formula or other flexible basis to the full range of recipients--public housing authorities, state and local governments, nonprofit organizations, and others HUD and Congress deem should be eligible.

HUD and Congress may not agree with this particular suggestion, but they must make an equally major policy decision. The current layering of social services on the crowded HUD program agenda is not fair to HUD or those whose problems the programs are designed to address.

HUD IN THE COMMUNITIES: TRYING TO MOVE FROM REQUIREMENTS TO RESULTS

HUD's programs must be discussed in the context of the many communities of users. The panel's thoughts in this area derive from its members' experiences as well as the wealth of material and perspectives gathered during the Academy's study.

Though a program may begin operating shortly after Congress creates it, it can take a year or more for HUD to issue interim and final regulations. Once HUD issued the regulations, staff and users found they did not have time to become familiar with one set before HUD issued another set. In addition, the many regulations and handbooks that govern HUD programs comprise a complex mix of requirements for users to operate and HUD staff to administer. The numerous regulations and handbooks send a message that encourages staff to focus more on processes than program outcomes. On the other hand, the National Corporation for Housing Partnerships noted that "one of the few aspects of HUD which is helpful and which works fairly

well (at least in the multifamily area) is HUD's generally high quality regulatory guidance; the programs are complicated and . . . the more guidance the better."

Interviewees said that they perceived the impact of the HUD scandals was to add layers of requirements and more inspections by HUD program staff or the OIG. There was general recognition that media attention, congressional hearings, and the 1989 HUD Reform Act had reinforced the attitude that monitoring was paramount. HUD staff not only agreed, but often brought up these same points, noting that HUD's work could be far more effective if HUD were working in the communities with its grantees or state and local governments.

Among the interviewees, there was a great deal of frustration about multiple planning requirements--CHAS, CDBG, homeless programs, to name a few. As discussed in Chapter Four, CPD is working with HUD's communities of users to combine these into single, community-based plans. CPD is also working on formula grant streamlining and has actively involved grantees in the process. CPD now lets each unit of government select a single fiscal year for all HUD programs rather than requiring them to use different fiscal years for different

HUD programs. This will also simplify reporting requirements. CPD expects to be able to consolidate the forms used and timeframes for NOFAs, as well.

In the September 1993 departmental publication, *Creating Communities of Opportunity: Priorities of HUD*, Secretary Cisneros said that HUD would work with communities to "create a new definition of community that recognizes the connections among the myriad elements that affect a community's vitality, such as housing, economic development, public amenities, infrastructure, human development and civic culture."⁵ To that end, HUD would require "local strategic plans that embrace all of the elements that contribute to community vitality." HUD would begin with metropolitan-wide planning demonstrations, and communities would compete, through a NOFA, to participate. Ultimately, HUD would demonstrate strategic planning models, prepare technical assistance materials other communities could use, and create a new HUD office to oversee the new strategic planning process. In all of the community meetings NAPA convened, there was apprehension about a HUD-required comprehensive plan, how it would be used, and who would fund its preparation.

One area HUD cannot control but which participants brought up in NAPA's community group meetings was that the requirements of the Davis Bacon Act make HUD programs more costly and delay repairs. Users noted that the required cost threshold is low and has not been changed in years. To illustrate the problem, one county Department of Planning reported that a 12-unit multifamily dwelling needed repair, which would entail a capital project of just over \$10,000. Because the county had to use the Davis Bacon Act's wage scale (which staff characterized as above the local wage rate) the project cost more, required more paperwork, entailed monitoring the payroll, and required a preconstruction conference. County officials could not understand why the cost threshold could not be raised above \$10,000.

Not all user comments were negative. Constructive suggestions mingled with a broad positive reaction to the services the Baltimore field office provides to its constituents. A Denver mortgage banker who handles a multifamily portfolio said HUD staff in loan management were good to work with, were receptive to ideas and would be likely to implement any authority that

Washington delegated to the field. Certainly, the New York cities of Utica, Rochester, and Buffalo thought that the Buffalo field office had worked with them to develop creative development strategies for several projects. (See Case Study 4-1, at the end of this chapter, that describes these efforts.)

As a federal department, HUD does not create most of the rules it must follow, nor does it have much flexibility in some areas. For example, Denver meeting participants believed that Denver communities were punished because of problems with programs in other communities. If HUD found a mistake in one part of a program, they presumed other communities would do the same, so Washington tightened program rules. In several community sessions with program users, participants said that they thought HUD should be forced to micromanage in only those communities or organizations that had problems operating a HUD-funded program. The Administrative Procedures Act complicates the issue by requiring HUD to develop sets of regulations or procedures that are to be applied the same way across the country. If they are not, the federal government is open to lawsuits.

The specific nature of HUD's requirements and regulations flow in part from the nature of its programs and the need for accountability in the use of public funds. HUD staff and program users thought that some of these requirements had become more onerous after passage of the 1989 HUD Reform Act, which was instituted to counter the criminal activities that occurred during the Reagan administration.

Many individuals suggested that HUD would micromanage less if it used a customer service approach in which HUD staff worked with a user or group of users to address an issue or accomplish a task comprehensively, rather than focusing on pieces of a project or process. For example, when HUD is trying to develop a workout with a multifamily mortgagee, developers and lenders found that HUD's components do not coordinate well. They thought if one person were responsible for accomplishing the workout, that HUD employee would work with housing management, housing development, perhaps the field office CPD for CDBG funds—whatever it took to get the property in shape for a renegotiated loan.

Conclusions and Recommendations on: HUD in the Communities—Trying to Move From Requirements to Results

While there have been calls from HUD's users that the department needs to refocus from requirements to results and the secretary has announced his intent to move the department in that direction, flexibility cannot be instantly built into HUD programs. In addition, just one major negative news story will encourage Congress and the media to clamor for more control over HUD programs. The temptation to bolster requirements will be hard to resist, but it is essential to do so. An overly eager enforcement role is not helpful and is costly to maintain. There is a need to change the perspective at HUD from one that is prescriptive to one that is facilitative.

Community leaders know Secretary Cisneros' reputation as an urban mayor and activist, and believe he fully understands their problems and challenges. Thus, there is a willingness to give the secretary and his leadership team a chance to work with community leaders. To do that most effectively requires a change in some of HUD's traditional work modes.

The Academy panel recommends that HUD:

- ◆ **Work through a single community planning mechanism to coordinate information and reporting requirements among HUD's programs and across its offices.**
- ◆ **Eliminate requests for data, in plans and reports, unless they are integral to direct program operations and HUD consistently uses the data.**
- ◆ **Emphasize the need to demonstrate results rather than to document processes. This must be done through substantive changes, such as modifying reporting requirements so that users are asked largely to present information on performance.**
- ◆ **Consolidate calls for data, among HUD's programs and across its divisions, and take advantage of technology. Automate data requests and input whenever possible, so that clients do not have to download data from their systems and convert it to paper, only to have HUD have to reload it into a HUD database.**
- ◆ **Work with Congress to draft amendments to the HUD Reform Act so that the Act's requirements, while working toward sound management and accountability, do not serve as impediments to HUD's goals in working with developers, direct service providers, and communities.**
- ◆ **Set up a simple procedure for HUD users to document when governmentwide federal requirements add costs or delay action. Use these data to determine whether there are federal requirements (such as the Davis-Bacon act or the Uniform Procedures Act) that HUD should work with other agencies to urge Congress to change.**

WORKING IN THE FEDERAL ARENA

There have been varying attempts to coordinate federal programs in the communities they served. Most notable were the Federal Regional Councils (FRCs) that President Nixon established at the same time that he structured federal departmental field activities into ten standard federal regions. Each region had an FRC that coordinated local programs and activities, and each department and major agency served on the Council. The departments' official representatives were the regional administrators themselves.

A number of federal officials who worked with the FRCs found them to be meaningful ways to coordinate programs at local levels. The FRCs also gave state and local officials a clear place to interact with the federal presence in these 10 parts of the country. Other federal officials found them to be simply another layer of bureaucracy, and were pleased when they were abolished.

There are Federal Executive Boards in major cities across the United States. Serving on these boards are the heads of all federal activities in a city, which means that the Boards are a mix of career and political officials and senior executives and mid-level managers. Though the Federal Executive Boards also provide a means for interdepartmental cooperation, their functions are far more limited and do not entail true coordination of federal programs.

As discussed in Chapter One, projects or activities that get HUD funds often have components that are funded by other federal departments. For example, an urban revitalization effort may draw support from HUD, Commerce's EDA, the Small Business Administration and the Department of Health and Human Services (which could be funding a child care center). The federal government does not integrate its efforts; local governments do that to the extent that it can be done. In fact, service integration has become a professional field in and of itself.

HUD's programs serve diverse needs, are rendered in communities of all sizes, and entail working with a broad mix of state and local, non- and for-profit organizations. While HUD works throughout the country, relatively little of its staff's contacts are with other federal agencies. This is changing, and will continue to change as HUD's program mix includes more social programs and as the Clinton administration fosters interdepartmental efforts to address complex national problems. HUD now has the lead on three presidentially-assigned, interdepartmental efforts: homelessness, fair housing, and empowerment zones.

Coordinating for Stronger Fair Housing Programs

To ensure that all federal policies and programs support fair housing and equal opportunity goals through the design of their policies and in their program administration, the president issued an Executive Order⁶ that created the President's Fair Housing Council, chaired by the HUD secretary. Other members are the secretaries of health and human services, transportation, education, labor, defense, agriculture, veterans affairs, treasury, and interior. It also includes the attorney general, the chair of the Federal Reserve, the comptroller of the currency, the director of the Office of Thrift Supervision, and the FDIC chair. The council is to review the design and delivery of federal programs and activities to ensure that they support a coordinated strategy in fair housing, and it is to propose revisions to existing programs, develop pilot programs, and propose new programs and activities to achieve its goals.

The president directed the secretary and the council to develop a pilot program to implement in selected metropolitan areas. It is to promote fair housing choice by helping inner-city families move to suburban neighborhoods and by making the central city more attractive to those who have left it. The president further directed the members of the council to undertake a demonstration program to "reinvent the way assisted housing is offered to applicants, break down jurisdictional barriers in housing opportunities, and promote the use of subsidies that diminish residential segregation." These initiatives are to be combined with refined educational incentives designed to improve the effectiveness of inner-city schools.

In terms of housing issues, the president directed the HUD secretary, working with the attorney general and, where appropriate, heads of federal banking agencies, to exercise national leadership to end discrimination in mortgage lending, the secondary mortgage market, and

property insurance practices. The secretary is to issue regulations to define discriminatory practices in these areas and the secretary and attorney general are to "aggressively enforce the laws prohibiting these practices."

In conjunction with the latter set of responsibilities, HUD organized the Interagency Task Force on Fair Lending in 1993. The principals of the respective agencies first met March 10, 1994, when the 10 agencies that participate as the task force issued a statement that defined what constitutes lending discrimination under the Equal Credit Opportunity Act and the Fair Housing Act.

Working with Others to Address the Challenge of the Homeless

Many aspects of HUD's own programs to assist homeless Americans are discussed earlier in this chapter. The president signed an Executive Order, on May 19, 1993, calling for the Interagency Council on the Homeless (ICH), which is chaired by the HUD secretary, to develop a plan to break the cycle of existing homelessness and prevent future homelessness. The plan will review the distribution of funding and the way current programs work together and will recommend ways to enhance the federal effort.

Among the federal programs represented on the ICH are: the Job Training Partnership Act of the Department of Labor, which has been modified to focus more funds on people with the greatest need, including the homeless; and the Community Services Block Grant program of HHS, which helps states and localities provide health and substance abuse treatment services to the homeless. HUD's own reorganization of the McKinney Act programs is designed to increase linkages with mainstream sources, with some grants initially allocated to communities that have demonstrated efforts to improve homeless individuals' access to mainstream services and income-support programs.

The Interagency Council gets its resources through HUD's budget and staff. ICH is compiling and analyzing information from federal sources, states, localities, nonprofit providers, advocates, and homeless individuals. Working through the Domestic Policy Council, the Interagency Council brings federal efforts to assist the homeless to the direct attention of the White House on a regular basis.

Empowerment Zones and Enterprise Communities

In January 1994, the President announced the Empowerment Zone and Enterprise Community (EZ/EC) program. HUD is deeply involved in this effort to serve distressed urban and rural communities through "a comprehensive, coordinated, and integrated approach that combines bottom-up initiatives and private sector innovations with responsive Federal-State support." With his Executive Order⁷, the president:

- Established the President's Community Enterprise Board as a department-level coordinating mechanism involving 10 secretaries and five independent agency heads;

- Tasked the board to assist in implementing the administration's empowerment legislation; and
- Directed the board to review existing categorical programs to make them more responsive to distressed communities.

The federal government will designate up to 104 areas that meet poverty and distress criteria and have prepared strategic plans for revitalization. HUD will designate six urban empowerment zones (the secretary of agriculture will designate three rural zones) and 65 urban Enterprise Communities (30 additional will be rural). These designated areas are to receive federal grant funds and substantial tax incentives, with special concentration of resources, waivers, and tax credits for the empowerment zones. HUD's CPD has the lead for this effort.

This initiative represents a major effort to coordinate and target federal programs. Given the nature of most federal programs, with their statutorily based targeting on certain classes of people or activities, presidents from Lyndon Johnson on have failed in efforts to achieve inter-departmental coordination on domestic programs. If this community empowerment initiative succeeds, it could have major ramifications for how HUD and the other departments on the Community Enterprise Board administer their programs.

NAPA's meetings with Denver users of HUD programs occurred after Empowerment Zones and Enterprise Communities NOFA had been announced. Participants liked the concept, but had a certain amount of skepticism, noting that even if agencies are able to work across programs in Washington (and participants did not see a lot of evidence of this), local bureaucrats may not perform that way. There was also much negative comment in Denver about the role of Congress and interest groups who interfere in efficient program operations.

In September 1993, the president established the Community Enterprise Board, which is headed by the vice president and composed of the cabinet secretaries from most of the federal domestic departments. The board was chartered to assist in coordinating federal programs across department/agency lines available (or potentially available) to distressed communities and in developing policies related to successfully implementing the administration's community empowerment efforts. In establishing this board, President Clinton expressed strong support for a "comprehensive, coordinated, and integrated approach that combines bottom-up initiatives and private sector innovations with responsive federal-state support."

Conclusions and Recommendation on: Working within the Federal Community

While HUD works throughout the country, relatively little of its staff's contacts are with other federal agencies. This is changing, and will continue to change as HUD's program mix includes more social programs and as the Clinton administration fosters interdepartmental efforts to address complex national problems.

The homelessness issue illustrates the need for HUD's diverse missions to be integrated at the community level. For many people, homelessness is less often a housing issue than an

income support or mental health issue. The web of programs and services come from all levels of government and non-profit organizations, and are not well coordinated within or across the various boundaries.

Before the federal government can work effectively with the nation's communities, its agencies and departments must work across their borders to draw the most impact from federal resources. While President Clinton established the Community Enterprise Board, unlike the former FRCs, it has no counterparts in the field. There remains no systematic way for domestic departments to coordinate their activities at the local level.

The Academy panel recommends that the administration:

- ◆ **Establish counterparts to the Community Enterprise Board in major metropolitan areas to coordinate housing or community and/or economic development programs.**

The Academy panel recommends that HUD:

- ◆ **Share with communities information about what works well in all programs, but especially in the Empowerment Zones and Enterprise Communities. There will probably never be full funding of these programs, but if HUD takes the lead on information sharing, the concept may take hold.**

FROM BIT PLAYER TO FULL PARTNER

Though HUD's community of users could be critical of HUD's operations, many of them cited a need for HUD to reassert itself. They believed HUD should provide the leverage to enhance the overall housing and community development system as it works cooperatively with other governments, for-profit and nonprofit entities, community development organizations, and the many new tools of housing finance. Their critique of the current environment first discusses HUD's role in housing, then in community development.

At the same time that HUD's housing role in the nation's communities has diminished, increasingly important parts have been played by state and local governments, Government Sponsored Enterprises (GSE), private financial institutions, and innovative local lending programs. In many states, the housing finance agency is significantly more prominent than HUD in funding projects and in spearheading innovative programs.

An entire network of local housing partnership organizations have sprung up in the past decade, most of them geared to developing or rehabilitating affordable housing. They work around or in spite of HUD, who is rarely an active partner. As one Denver participant said, no one at HUD says, for example, "We're in the business of affordable housing." Most HUD programs were not designed to develop affordable housing, there is little incentive to participate

in the time-intensive deal-making, and few HUD staff have the sophisticated finance and real estate development skills needed to actively participate.

In the Cisneros HUD, there is active interest in working with communities to promote low- and moderate-income housing, though senior staff recognize that developing partnerships entails a long-term commitment and a lot of training for HUD staff. Efforts to meet these needs are visible, however. In March, HUD sponsored a day-long briefing--with several national housing partnership organizations--to discuss public-private partnerships for low- and moderate-income housing in CDBG communities.

Denver meeting participants were particularly emphatic that the local office was not able to make decisions, that when they did they were sometimes overruled by Washington. In Chicago, community meeting attendees were the most critical of HUD staff and complained they were far less experienced and knowledgeable than the constituencies with which they work, making it difficult to regard them as partners.

However, some of the Chicago meeting participants had begun to work with the Chicago field office's public housing demonstration effort, through which PIH has reorganized its field office along functional lines that more closely correspond to PHA organization. This permits PHA staff to deal with counterpart PIH staff who are versed in the same area, and it has enabled PIH to focus on those PHAs with the greatest need for improvement. Instead of conducting rigidly scheduled, handbook-driven reviews, field staff will carry out risk-based, customer-driven oversight activities, which encompass problem diagnosis, resolution, and follow-up. The Chicago PHA participants liked this new approach.

In the community development arena, local economic development organizations work less with HUD than state agencies, as one would expect. However, one of the reasons HUD is less visible is that it has cut travel funds so drastically that CPD field staff can rarely, if at all, visit cities that are beyond a two-hour drive from their home base. There are not funds for overnight visits such as one might make to attend a local planning board meeting.

While this "real world limitation" persists at the field level, nationally HUD is leveraging its position to work with major corporations and foundations through the National Community Development Initiative. HUD has committed \$20 million to this multi-year commitment to provide low-interest loans and grants to community development corporations. The foundations and corporations have initially committed over \$67 million, and the goal is to ultimately bring together \$660 million from other sources.

Finally, HUD staff and community participants were equally incensed at a ruling from the HUD Office of General Counsel, during the Kemp tenure, that required HUD staff to resign from all community boards or advisory groups because of potential "conflicts of interest." As one HUD FHEO field official put it, "I represent the nation's top housing organization in matters of fair housing, and yet I can't serve on the NAACP's housing committee. That doesn't make any sense." HUD is again considering this issue.

Making the Investment in Partnership

Several members of the Academy panel had worked with individuals who participated in the Negotiated Investment Strategy (NIS) initiative that operated in St. Paul, Minnesota; Gary, Indiana; and Columbus, Ohio. The project grew out of the need to counter the fragmented nature of federal assistance that forced state and local governments to respond to what was available rather than gain access to federal resources to help address the most pressing local needs. The Kettering Foundation-funded project was designed to "create a deliberate investment strategy through direct negotiations involving different levels of government in a particular community [The three] basic concepts defining NIS were:

- The coordination of public policies for all governments;
- A negotiated partnership between governments and the private sector for joint policy setting; and
- The view of public time and money as an investment in the community."⁸

NIS envisioned three negotiating teams, representing the city, the state, and the federal government. A mediator would work with the teams to clarify their positions and help produce win-win solutions in binding agreements.

The St. Paul NIS team agreed to address four areas of concern: housing, jobs/industrial/commercial development, tax base and fiscal stress, and urban image and environment. HUD's Chicago regional administrator chaired the Federal Regional Council's team that worked with the teams led by the mayor of Saint Paul (local) and the commissioner of finance (state). The city team demonstrated a greater ability to prioritize their objectives and obtain the necessary resources than the federal or state teams. Researchers postulate that this was because the city had a smaller, more centralized organization and the state and federal teams had to represent large bureaucracies.⁹

The first individual team meetings were held in early 1979 and the joint meetings followed. In September there was an information exchange session; by October the teams were clear on their own positions and met for formal negotiations. At the end of that session, they agreed to focus negotiations on seven specific projects. In December, the federal, state, and local teams reached an agreement that included funds (from a mix of sources) for seven specific projects and mechanisms for reporting on the projects themselves and their effects on the city's indebtedness and operating budget. In addition to the funds, the project brought what researchers termed "horizontal links. . . . Members of federal agencies were conscious of actions and goals of the other agencies, whereas previously they were not as aware or concerned."

At a 1981 roundtable on NIS, an Academy staff member concluded that the negotiated approach is most applicable in situations in which:

- Numerous actors are involved from diverse sectors;

- There are strong differences of opinion and competition between participants;
- Complex processes and extensive coordination are required to achieve results;
- The project or activity to be negotiated is of high priority for all or most participants;
- The demand for conflict resolution is strong among everyone involved; and
- The need for resolution is urgent.¹⁰

In their examination of the St. Paul project, researchers concluded it gave local private investors confidence in the success of future public ventures and strengthened public and private sector partnerships. They concluded that the NIS worked as well as it did in St. Paul because the leaders, the projects, and the city all contributed greatly. St. Paul had strong political leadership and the proposals were sound, creative, and well-conceived. Local government had strong links with the private sector, and the mediator (a former U.S. secretary of labor) was very effective.¹¹

The several panel members who had seen the NIS in action thought it very effective, especially in St. Paul. Nevertheless, since it was not part of a permanent program, when the Reagan administration showed no interest in continuing the experiment or applying its principles to intergovernmental programs generally, it was not continued.

Conclusions and Recommendations on: From Bit Player to Full Partner

The partnership theme is a consistent one at HUD of the mid-1990s, and there is commitment to this concept. It is not yet clear, however, where HUD will acquire the staff resources or flexibility to participate in the very time-intensive, sophisticated deal-making that is central to housing and community development partnering. True cross-program, community-based efforts are very labor intensive and cannot be done unless staff are trained to work as activists rather than monitors or regulators. Still, commitment is the first step, and HUD has pledged to be a full partner with the nation's communities.

The Academy panel recommends that HUD:

- ◆ **Use the newly-formed "Community Empowerment Teams" in HUD's 81 locations to seek regular input from HUD's communities of users on HUD policies and requirements and the impact they will have on communities.**

- ◆ **Minimize Washington-based interference in local decisions and partnerships.**
- ◆ **Legitimize interaction between HUD and the various communities it serves. Overturn the HUD OGC ruling that HUD staff had to resign from advisory committees and boards.**
- ◆ **Study the Negotiated Investment Strategy concept, which entails intergovernmental negotiation to facilitate local urban strategies; consider implementing some of these concepts--without creating a separate program to do so.**
- ◆ **Revise employee incentive system (expectations, rating criteria, promotion considerations) to emphasize that working with communities and other agencies is as important as enforcing regulations.**
- ◆ **Undertake a major investment in retooling HUD staff to prepare for different kinds of relationships with all communities of users.**
- ◆ **Create short-term staff "rotation" assignments between HUD and state and local governments and nonprofit organizations. These are already permitted under the federal Intergovernmental Personnel Act, and would provide HUD and its communities of users with important exposure to one another's work and methods.**

Programs that Congress has mandated and funded must be operated, and there will be requirements associated with them. Working more effectively with communities does not mean abdicating oversight responsibilities. To do the kind of staff-intensive community partnering that the secretary envisions, HUD must make trade-offs among other responsibilities or request statutory relief from some of its regulatory requirements.

The recommendations made here would be part of a long-term commitment to changing HUD's role as it works as a partner to create communities of opportunity throughout the nation. This commitment requires more than position statements; it requires strong leadership, a specific set of management strategies, and adequate resources.

If HUD were to be successful in fundamentally changing the manner in which it interacts with American communities, it would be setting precedents that could influence a whole range of relationships that exist among federal, state, and local governments.

Case Study 3-1 Serving Communities as a Team Player

HUD's Buffalo field office has used the principles of total quality management to foster a holistic approach to working with communities as they undergo major revitalization efforts. The experience demonstrates the potential for success when a strong local decision maker consolidates the resources of HUD's programs and talents of its staff.

Utica, New York

Utica wanted to revitalize a large, poor, inner-city neighborhood called Cornhill. Working with a local geriatric care provider, the city planned to convert a vacant high school, situated on 6.5 acres with no development potential, into Loretto Homes, a 120-bed skilled nursing home, a 149-bed adult care residence, an adult day care, and assisted living programs. Space would be allocated for a county-run satellite medical clinic, and the gymnasium would be converted into a neighborhood community facility for day care and other social service uses.

The city also wanted to develop a hotel and conference center in downtown Utica. The Hunter House Adult Care Center was formerly the Hotel Utica. The city planned to buy the Hunter House facility, convert it back into a hotel, and move its residents into the Loretto project.

This was a complex project. The city was trying to get support and funding from federal, state, and local sources. Initially, HUD's Housing Development Division in Buffalo did not support the city's request to underwrite the rehabilitation of the school for a nursing facility. The division had concerns about coordinating a project that involved demolition, new construction, and urban renewal programs, and questioned whether HUD should be investing in that neighborhood.

When the city went to the field office manager for assistance, the manager believed that this was just the type of project HUD should be involved with. Recognizing that resources other than mortgage insurance were needed, the field office manager formed a task force with representatives from each of HUD's divisions to work with the city, state, and other key community organizations to determine what each would have to commit to the project. As a result, the Loretto project is under construction and the project is moving into its second phase--revitalizing the downtown hotel.

Rochester, New York

HUD's Buffalo field office assembled a team from its CPD unit, Housing Development, and Housing Management Divisions and Property Disposition Branch to focus on Rochester's community development. In a city in which 56 percent of the residents rent their residences, there is also a lot of vacant housing.

The city's goal is to build a more stable community by increasing homeownership for low- and moderate-income households. The city set a goal to take 305 vacant houses and either demolish and rebuild them or offer grants to owners to rehabilitate them by December 31, 1994.

The Buffalo HUD office is trying to help the city by using the FHA property disposition process as a development tool in three transitional neighborhoods, where traditional market forces are not prevalent. A key element of the city's relationship with HUD centers on the CDBG program and the need for other federal resources, such as HOPE 3.

HUD's property disposition staff did not initially believe that the city's proposal to acquire properties in HUD's inventory was feasible in relation to regulations. The field office manager urged that the proposal be further evaluated and that headquarters be consulted to determine how to make Rochester's proposal a viable program. The HUD staff has been working as members of a team with the city and the director of the Greater Rochester Housing Partnership, a not-for-profit that will be the actual purchaser of the HUD-foreclosed properties, to solve systems problems, and to turn housing into a fast production system.

During a year, they met quarterly, either in Rochester or Buffalo and spoke often between meetings. As of spring 1994, HUD conveyed 27 properties to the Greater Rochester Housing Partnership. Rochester was also awarded \$1 million in HOPE 3 funds, which, according a city official believes was due in part to the results achieved by the HUD/Rochester partnership.

The HUD/Rochester partnership has continued beyond the vacant housing initiative. At the same time they were doing their housing initiative, Rochester was starting a city-wide neighborhood planning process. Neighborhoods were being allowed to create visions for themselves which were being used to develop a comprehensive plan for the city.

An internal working group in HUD's Buffalo CPD unit worked with the city to develop its consolidated planning process. At the field office's urging, Rochester was selected as one of the sites to pilot HUD's consolidated planning initiative. Its neighborhood plans--as well as the city's Housing Policy Rental Strategy, Neighborhood Commercial Study, Downtown Plan, and Human Services Policy--will become a part of its consolidated block grant plan. As a result, the city will submit a consolidated application for fiscal year 1994 funding under the CDBG and HOME Investment Partnership Programs.

Buffalo, New York

The Towne Gardens development had been a long-standing problem. The predominantly low-income, minority area had seen some improvements, as evidenced by the construction of 300 to 400 new, single-family residences, built by various local developers through the use of FHA mortgage insurance as well as the city's Community Development and New York State funds. But the neighborhood still lacked many of the basic services and supplies that are a part of a thriving urban neighborhood. HUD holds the mortgage on a low-income family housing development, which contains a nearly vacant strip plaza. The city needed to decide either to spin off and demolish the commercial component or to develop a viable plan to revitalize a needed commercial center.

The project has fostered a partnership between HUD, the city of Buffalo, the local city council, a consortium of East Side churches, local lending institutions, the University of Buffalo Center for Applied Public Studies, neighborhood resident groups, and other neighborhood

business concerns. The city created task forces to work on the various issues surrounding this project. The HUD Buffalo office assembled an inter-program team to work as members of those task forces. HUD staff have been dealing with issues in commercial development, housing development, section 8, and tying public housing to the community.

The city made funds available to conduct a market study on the future viability of the strip plaza. Based on the results of that study, the city secured funds to begin rehabilitation of the plaza into a commercial "community center." As of April 1994, rehabilitation was underway and some major tenants have been secured, including a branch office of one of the local banks and an outpatient clinic of the community hospital, which will service the neighborhood. One of the community task force leaders attributes the success of the project to HUD's working relationship with the neighborhood.

Endnotes: Chapter Three

1. Based on a review of new programs added through the 1990 and 1992 National Affordable Housing Acts and the 1992 Housing and Community Development Act.
2. HUD, released to NAPA in draft by the Office of the Chief of Staff, *HUD Transformation Report Draft*, April 1, 1994, p. ES-1. NOT FOR QUOTATION.
3. Jason DeParle, "Report to Clinton Sees Vast Extent of Homelessness," *New York Times*, February 16, 1994.
4. U.S. Conference of Mayors.
5. HUD, *Creating Communities of Opportunity*, pp. 2-3.
6. Executive Order, *Leadership and Coordination of Fair Housing in Federal Programs: Affirmatively Furthering Fair Housing*, January 17, 1994.
7. White House Press Release, *Empowerment Zones and Enterprise Communities: Available Resources*, January 17, 1994.
8. David Lanegran, Cynthia Seelhammer and Amy Walgrave, "The Saint Paul Experiment: Initiatives of the Latimer Administration," appearing as Chapter 21 in *Case Studies in Metropolitan Reform*, December 1989, pp. 355-56.
9. Lanegran et. al., p. 359.
10. Charles Warren, "National Implications of a Negotiated Approach to Federalism," presented as a National Academy of Public Administration paper at the Kettering Foundation roundtable entitled *Mediating Federalism: Roundtable on NIS*, July 8, 1981.
11. Lanegran et. al., pp. 366-67.

CHAPTER FOUR

ORGANIZING TO FULFILL THE MISSION

Throughout HUD's 30-year history, as its staff replaced the president's photograph in the lobbies of HUD offices after each election, they could be sure of one thing: reorganization. Each new secretary has expressed new goals and new ways to achieve HUD's missions, and these have been reflected on the organizational chart.

By reorganizing, secretaries have attempted to keep abreast of the ever-changing mix of programs and that most rapidly moving of targets--America's communities, whether urban, rural or suburban. While some structural changes have helped HUD serve communities better, others appear to have brought change for its own sake, and this change was often accompanied by turmoil.

HUD at mid-1993 was an organization bogged down in programs, regulations and handbooks, and too distant from its varied communities of users. Though clear on paper, lines of decisionmaking had blurred among field, regions and headquarters. An inflexibly-applied hiring freeze made it increasingly difficult to manage declining resources as responsibilities expanded. While struggling staff attempted some innovative ways to meet these challenges, more often HUD's communities of clients were frustrated by increasing delays in reaching decisions and a perceived emphasis on compliance rather than partnerships for solving the nation's housing and community development problems.

The reorganization Secretary Cisneros announced last December provides direct line authority for program operations from the assistant secretaries to the program division directors in the field offices. The 10 regional offices are to be abolished and a cadre of staff (the former field office managers and 10 political appointees) are to assume program and community coordination functions at the area, state, and regional levels.

There is probably no best way to structure an organization as large, diverse, and subject to change as HUD. Shortly before this reorganization was officially announced, however, the Academy panel raised several concerns about whether this initiative was a step in the right direction. These concerns noted that the new structure seemed at odds with the secretary's agenda to take a holistic approach to serving communities; there was an apparent mismatch between authority and responsibility to coordinate work in the field; and HUD might miss a potential opportunity for field office consolidation.

HUD's structure does not permit it to operate its business functions (FHA and GNMA) any differently from its other housing, community development and social programs. FHA and GNMA are financial institutions that provide commercial-type products (insurance and securities) with the perspective of a public purpose; the rest of HUD delivers services to individuals and communities. HUD's new structure, while appropriate for a type of business that requires near uniform policies and operating procedures, does not necessarily meet communities' varying needs or complement their decisionmaking mechanisms.

This chapter first examines the changing HUD organization over time, then presents and analyzes the March 1994 HUD reorganization plans and how they are being implemented in the different HUD units. Recommendations are geared to strengthen the current reorganization and urge HUD to reconsider an alternative (supplemental) structure that places greater emphasis on inter-program work in communities. The chapter next weighs the pros and cons of changing FHA's and GNMA's corporate status to a more autonomous one, less subject to federal administrative requirements but still clearly under the secretary's policy direction.

TRENDS IN HUD REORGANIZATION: FROM WEAVER TO KEMP

Secretary Robert Weaver (January 1965-January 1969), the first HUD secretary, said that his departmental organization had three objectives:

Design the department so that it can deal efficiently and thoroughly with the problems of Urban America;

Provide strong decision-making authority in the field, through regional offices; and

Prepare a sound management framework through which the Demonstration Cities program can be carried out.¹

The department had seven regional offices (Atlanta, Chicago, Fort Worth, New York, Philadelphia, San Francisco, San Juan), but most programs were run out of headquarters, where there were five assistant secretaries. FHA maintained 76 major insuring field offices that were organized into five zones and run by five Washington-based zone commissioners, autonomous from HUD's seven-region structure. No other HUD components had field offices, and HUD resembled a bureau model, with authority flowing from headquarters along program lines. (Information on the evolution of HUD's headquarters and field structures is shown in Tables 4-1 and 4-2.)

Secretary George Romney (January 1969-January 1973) added three new regional offices, in keeping with President Nixon's direction that HUD adopt 10 standard federal regions. He also made what was perhaps the most major change in how HUD operated. This change entailed moving program operations into the field structure, and converting insuring offices to area offices (which were to include about 95 percent of HUD's programs) that were subordinate to the regional offices. This effectively eliminated the bureau form of organization that HUD had carried forward from its predecessor, the Housing and Home Finance Agency. Another 38 insuring offices continued FHA insurance work and picked up FHA assisted housing work that was transferred from the regional offices.

A key element in the new area office organization was the program manager concept. Each area office had program managers who were to ensure, within assigned geographic areas, that all programs the area office administered were so coordinated as to produce "maximum benefits to the states, localities, and individual citizens they were designed to serve." The program managers and a staff of HUD program specialists made up a team to which HUD clients in a particular area looked for fully coordinated assistance. This organization permitted

HUD to operate its *annual arrangement concept*, through which a city and HUD could agree on an overall annual plan that included the amount of assistance from each HUD program involved and the commitments of the city to implement its development activities on a planned and coordinated basis.²

Secretary Romney's realignment of decisionmaking within HUD mirrored the changing focus of the programs themselves. Two factors were at work. First, President Nixon's concept of New Federalism was based on the premise that public decisions on community development matters should be transferred from the federal government to state and local governments. This was reflected later in the Community Development Block Grant program created under the 1974 Act. Second, there was the beginning of a shift in emphasis from project support to income support, beginning with the Section 8 housing assistance payments program, which provided rent support to landlords based on tenant needs, a step toward direct cash assistance.

Secretary James Lynn (February 1973-February 1975) realigned some headquarters program areas (see Table 4-1), and created the positions of deputy under secretary for field operations and deputy under secretary for management. Concurrently, field offices were configured to more closely mirror the headquarters structure. To some extent, the *moratorium* on subsidized housing programs Secretary Romney put in place as he made his major program changes meant headquarters and regional offices recaptured some of the authority delegated to the field offices, leading to some duplicate processing and uncertainties on the part of HUD's communities of users as to who made which decisions.

Secretary Carla Hills' (March 1975-January 1977) focus on organizational roles was geared to streamlining decisions. She brought together her principal Washington staff, regional administrators and selected area and insuring office directors in a retreat-style setting, and offered two models. One she characterized as the *program* line, in which program authority flowed through program assistant secretaries to the field. The other she termed the *general manager* line, in which program authority would flow from her through a general manager to the field, with assistant secretaries acting in a staff relationship. She preferred the program line, but chose the general manager line, designating the deputy under secretary for field operations as her ombudsman to ensure clear field access to her office and to strengthen the direct general management lines of authority through regional administrators. This organization contrasted with the program management lines of authority through the program assistant secretaries and regional administrators. Hills also directed that the field and regional offices eliminate duplicate processing and reaffirmed that program execution would be carried out in the field offices, with supervision and evaluation in the regions.

The deputy under secretaries for management and for field operations came to be viewed as separate from the program assistant secretaries, who saw that they lost power as regional administrators gained it. The deputy under secretary for management position was abolished in 1977, and Secretary Patricia Harris (January 1977-September 1979) clarified the role of program assistant secretaries (PASs) as: making and interpreting policy; providing technical support and guidance to field offices; and monitoring and evaluating departmentwide program administration and performance. The PASs were to continue to rely on regional administrators to direct and accomplish program objectives in the field.³ Secretary Harris also abolished the term *FHA insuring office* and replaced that with the term *HUD field office*. These offices handled different

types of single family or multifamily housing work. Though there were few workload changes, the concept was to move away from the perceived separation between *FHA work* and *HUD work*. Area offices continued to handle the full range of HUD programs.

Secretary Moon Landrieu (September 1979-January 1981) consolidated Native American housing programs into six offices that crossed the 10 standard regional boundaries. In 1983, Secretary Samuel Pierce (January 1981-January 1989) transferred Public and Indian Housing (PIH) from the Office of Housing to a new assistant secretary for PIH. In 1983, HUD also implemented a field reorganization that: abolished the area offices that were in the same cities with the 10 HUD regional offices, and subsumed the area office responsibilities under the regional offices; categorized each field office by the programs it carried out (the A,B,C,D categories used for many years, and defined on Table 4-2); changed reporting relationships so that A, B, and C managers reported directly to the regional administrator, while D offices reported to a Housing Development Division in a larger parent field office. The total number of field offices remained unchanged.

Under Secretary Pierce, HUD also determined--at OMB urging--that it could save 152 positions by closing the four smallest regional offices (Denver, Boston, Seattle and Kansas City). Although the secretary agreed to take the personnel cuts, the regional offices remained. HUD also closed five field offices (Bangor, Burlington, Springfield, Topeka and Wilmington), which were judged to have low workloads. Congress mandated, in the fiscal year 1987 Appropriations Act, that all five be reopened. (Topeka was closed later.) When they were reopened HUD did not receive additional positions to replace those cut or reassigned when the offices were closed. Secretary Pierce did consolidate HUD's Title I debt collection activities into centers in Albany, Chicago and Seattle.

During Secretary Jack Kemp's tenure (February 1989-January 1993), the positions of chief financial officer and FHA comptroller were created by the HUD Reform Act of 1989. Also during Secretary Kemp's tenure, a NAPA study team recommended that HUD establish additional comptroller positions and organizations, and these were set up in PIH, CPD, Administration and GNMA. HUD later established regional comptroller positions. FHA accounting was transferred from Administration to Housing, along with 448 positions, so as to integrate accounting and program operations.

Several additional headquarters offices were established. Secretary Kemp created an assistant secretary for public affairs and a separate Office of Ethics in the Office of Administration. Congress, through the HUD Appropriations Act for Fiscal Year 1992, created the Office of Lead-Based Paint Abatement and Poisoning Prevention, which is housed in the Office of the Secretary. Congress also created the Office of Federal Housing Oversight⁴, which is the regulator of the Federal Home Loan Mortgage Corporation (FHLMC) and the Federal National Mortgage Association (FNMA), two privately-owned, government-sponsored enterprises.

A review of HUD's organizational structure from Secretaries Weaver through Kemp reveals three instructive points. First, HUD was in its early years focused on urban concerns, reflected in the three assistant secretaryships in these areas. (See Table 4-1.) As the urban focus evolved into community development, reorganization brought one office, CPD, to address

it, although there was also an assistant secretary for neighborhoods, voluntary associations, and consumer protection. Secretary Pierce abolished that position.

Second, HUD shifted from centralized decisionmaking in Washington to a decentralized arrangement in which Washington set policies, regions interpreted the policies and reviewed implementation by field offices, and field offices operated many aspects of HUD's programs through onsite, cross-program managers. (See Table 4-2.) However, operations were not allowed to work as planned--field decisions were overridden often enough that constituents could be sure that if they brought complaints to bear in headquarters they could get what they wanted. Rather than creating a *team HUD* environment from field through headquarters (something that would entail consistent Washington leadership and continual staff training), HUD became a place where its communities of users could easily manipulate the system. Politics, not public administration, reigned. Third, under Secretary Kemp, more oversight offices came into being, some of his creation and some from Congress. This development is understandable given the HUD scandals that arose from the Pierce administration.

When Secretary Henry Cisneros took the reins in 1993, he found an organization overwhelmed from the program growth, downsizing and distrust from the prior decade. HUD's management systems infrastructure had badly deteriorated. The number of active programs it managed was more than 160; the number of HUD full-time equivalent employment had declined from 16,213 in 1981 to 13,294 as of the end of fiscal year 1993. Within the federal community, as well as from the community of clients that HUD served, there was no disagreement that HUD was an organization that desperately needed to change.

THE CISNEROS REORGANIZATION PLAN

The seeds of HUD's reorganization were planted in February 1993 when Secretary Cisneros announced his intention to *reinvent HUD*. He appointed a Reinvention Task Force which was an umbrella for two groups: a Policy Redesign Task Force, headed by the assistant secretary for policy development and research, and a Management Excellence Team, headed by the assistant secretary for administration. The members of these groups were managers and staff from the headquarters' program offices, administration, the inspector general's and general counsel's offices, and field offices. The groups were tasked "to help redefine HUD's mission and to identify improvements in the delivery of program services." A July 1993 task force report, "Recommendations for Management Improvements," noted that:

. . . considerable operating efficiencies and productivity can be achieved by consolidating certain program and administrative processing activities that are currently conducted inefficiently by Regional and Field Offices as well as by Headquarters.

Table 4-1
HUD Assistant Secretaries and Selected Offices, Over Time

Weaver (1/65-1/69)	Romney (1/69-1/72)	Lynn (2/73-2/75)	Hills (3/75-1/77)	Harris (1/77-9/79)	Landrieu (9/79-1/81)	Pierce (1/81-1/89)	Kemp (2/89-1/92)
Administration	Administration	Administration (deputy under secretary for manag't created 1974)	Administration	Administration (deputy under secretary for manag't abolished 1977)	Administration	Administration	Administration; separate Office of Ethics in Administration
Mortgage Credit and FHA Commissioner	Housing Production & Mortgage Credit & FHA Commissioner (a)	Housing Production & Mortgage Credit & FHA Commissioner (a)	Housing (& FHA commissioner). Included Public Housing.	Housing (& FHA commissioner). Included Public Housing.	Housing (& FHA commissioner). Included Public Housing.	Housing (& FHA commissioner)	Housing (& FHA commissioner)
	Housing Management (b)	Housing Management (b)				Public and Indian Housing	Public and Indian Housing
Metropolitan Development	Community Planning & Management	Community Planning & Development	Community Planning & Development	Community Planning & Development	Community Planning & Development	Community Planning & Development	Community Planning & Development
Renewal & Housing Assistance (c)							
Demonstrations (Model Cities) & Intergovernmental Relations	Community Development (including Renewal)						
			Consumer Affairs Regulatory Functions	Neighborhoods, Voluntary Associations & Consumer Production	Neighborhoods, Voluntary Associations & Consumer Production	Abolished in 1981	Public Affairs
Equal Opportunity (established 1968)	Equal Opportunity	Equal Opportunity	Fair Housing & Equal Opportunity	Fair Housing & Equal Opportunity	Fair Housing & Equal Opportunity	Fair Housing & Equal Opportunity	Fair Housing & Equal Opportunity
	Research & Technology (established 1969)	Policy Development and Research	Policy Development & Research	Policy Development & Research	Policy Development & Research	Policy Development & Research	Policy Development & Research
		Legislative Affairs	Legislative Affairs	Legislative & Intergovernmental Relations	Legislative & Intergovernmental Relations	Legislative & Intergovernmental Relations	Congressional & Intergovernmental Relations
	Office of Inspector General (1971)	Office of Inspector General	Office of Inspector General	OIG made a statutory office	Office of Inspector General	Office of Inspector General	Office of Inspector General
(a) Included FHA, Housing & Public Housing Production	(b) Included FHA, Housing & Public Housing Management	(c) Included Urban Renewal and Public Housing					Chief Financial Officer
							Ofc of Lead Based Paint
							Ofc Fed Hsg Oversight

Table 4-2
HUD Regional and Field Offices and Reporting Structures, Over Time

Weaver (1/65-1/69)	Romney (1/69-1/72)	Lynn (2/73-2/75)	Hills (3/75-1/77)	Harris (1/77-9/79)	Landrieu (9/79-1/81)	Pierce (1/81-1/89)	Kemp (2/89-1/92)
<p>7 regional offices covered all non-FHA activities.</p> <p>Regional administrators had limited program & administrative authority.</p> <p>13 programs ran out of Head Quarters and 4 programs out of regions.</p>	<p>10 federal regions.</p> <p>Eliminated bureau structure. Full decentralization; field offices report to regional administrators. Regional Administrators could reallocate funds among offices.</p> <p>Most programs transferred to field.</p>	Same.	<p>Eliminated duplicate processing between Area Offices and Regional Offices. Regional Offices to supervise Area Offices.</p> <p>General belief that Regional Offices became more <i>powerful</i> in this period.</p>	<p>Reiterated region role to supervise Field Offices.</p> <p>Program assistant secretaries to provide <i>technical support & guidance</i> to Field Offices.</p>	<p>Same.</p> <p>Indian programs consolidated in 6 offices: Chicago, Oklahoma City, Denver, Seattle, Phoenix, Anchorage.</p>	<p>Merged collocated Regional Offices & Field Offices into Regional Offices.</p> <p>Tried to abolish 4 regions. Unable.</p> <p>Established 3 regional debt collection centers to consolidate field efforts.</p>	Established positions of regional comptroller.
<p>No HUD field offices.</p> <p>76 FHA insuring offices. FHA oversaw them from Head Quarters; divided them in 5 zones.</p>	<p>38 area offices created to handle all HUD programs with field functions. (Created by expanding 38 FHA insuring offices.)</p> <p>38 separate offices remained that did only FHA insurance and were called FHA Insuring Offices.</p>	Same	Same	<p>Area offices do full range HUD programs, field offices handle mix of only housing.</p> <p>Title of <i>FHA insuring offices</i> abolished.</p> <p>Field offices established for various <i>housing only</i> roles.</p>	Same.	<p><i>Area offices</i> replaced by 4 categories.</p> <p>A—all programs.</p> <p>B—MultiFamily servicing</p> <p>C—Single Family, including insurance endorsement.</p> <p>D—Single Family through endorsement.</p> <p>A,B,C, offices report to region. D reports to another Field Office.</p> <p>Tried to close 5 Field Offices. Congress forced reopening.</p>	Able to close one office for good (Topeka).
	Office of Regional Liaison set up in Office of Administrator.	Deputy under secretary for field operations established in 1973.	Designated deputy under secretary for field operations as <i>ombudsman</i> to give field access to secretary.	Same title.	Same title.	Same title, but operated as direct supervisor of regional administrators.	Title changed to assistant to secretary for field coordinator. Changed again to assistant to secretary for field management.

This report sparked several initiatives. Program areas began to look at legislative and regulatory requirements that inhibited effective service delivery, and offices began examining program handbooks to see where they could be eliminated, combined, or streamlined. One task group examined working conditions throughout the department and another held teleconferenced meetings with HUD's customers to obtain their views on the service provided.

On September 7, 1993, NPR issued its report which recommended that HUD eliminate its regional offices, consolidate its field office structure and gradually reduce its workforce by the end of fiscal year 1999. With White House support, the secretary moved quickly to implement the NPR recommendations. OMB had set December 1, 1993 as the deadline for HUD to submit its streamlining plan, which was required by a presidential memorandum dated September 11, 1993. Eliminating the regional offices was to become the heart of HUD's plan.

In a September 9, 1993, memorandum to all staff, the secretary announced that he had asked the assistant to the secretary for field management (ASFM) and the Chief Financial Officer (CFO) to develop an action plan to improve HUD's program delivery. The secretary asked that they travel to the regions to gain insights on how best to reorganize HUD. The CFO and ASFM asked HUD managers, employees, union officials and customers three basic questions:

- Who are HUD's clients and how are the department's programs organized to deliver services to them?
- What organizational changes could be made to improve service delivery?
- How could authority be better delegated to empower HUD employees and managers?

With this information, and in consultation with the secretary and other principal staff, the assistant to the secretary and the CFO developed a framework for HUD's reorganization.

OVERVIEW OF THE CISNEROS REORGANIZATION

HUD's new organizational structure rests on six guiding principals:

- **Protection for employees:** no one will lose his or her job as a result of reorganization.
- **Consolidation of authority and responsibility:** program assistant secretaries will directly manage their programs in the field, for the first time in HUD's history.
- **Turning the organization right side up:** the field staff, who are closest to the customers, will be empowered to take initiative, and HUD headquarters will be more responsive to field staff's needs.
- **Community engagement:** customers and community leaders will be engaged by field offices in HUD's decision-making process.

- **Streamlined administration:** administrative functions will be consolidated, as much as possible, in the field offices.
- **Investing in people:** the skills of the work force will be enhanced through training programs.⁵

The secretary announced these guiding principles on December 1, 1993. He also announced the framework for a reorganized HUD:

- The current 81 field office structure will be merged into a new field arrangement to replace the regional and field office design.
- There will be 52 state offices (50 states plus the District of Columbia and Puerto Rico). Each office will have a state coordinator (SC).
- The remaining 29 offices will be designated area offices, servicing major metropolitan areas. Each will have an area coordinator (AC).
- In addition to administrative responsibilities for running the office (this does not include managing program budgets or making personnel decisions), SCs and ACs will coordinate the delivery of programs and represent the department with customer groups and others interested in HUD programs within their jurisdiction. They will be responsible for developing a coordinated customer service plan for their offices.
- Program assistant secretaries will have direct line authority to their counterpart divisions in the state and area offices. Each assistant secretary will develop an intra-program coordination mechanism.
- Functions currently performed by regional offices will either be transferred to field offices or headquarters or be abolished.
- There will be 10 groupings of area and state offices that will be coordinated by a secretary's representative (SR). These officials will be the secretary's "eyes and ears" for the geographic area they serve and will act as HUD's liaison to governors, other state officials, and broad-based interest groups. They will have no line authority over the field program office staff. All SCs/ACs will report through the SR to the secretary/deputy secretary.
- The states served by each secretary's representative will be the same as the former regional groupings but will be named after their geographic distinction for greater clarity and to underscore the end to the regional structure. For example, Region I will become New England.
- Each HUD office will form a Community Empowerment Team to seek feedback and advice from members of the local community on the department's programs

and services and to gain an understanding of the needs and resources in the local community.

- Administrative Service Centers will be established during the next two years to consolidate administrative functions.
- The reorganization is expected to be complete by September 30, 1994.
- Program assistant secretaries have been tasked with identifying the number of offices needed to effectively run their programs.

The ASFM and CFO compiled prior organizational reviews and studies, HUD staff papers, reinvention reports and memoranda from staff on their ideas for reorganizing the department. NAPA staff reviewed much of that material. It contains a wide variety of recommendations to alter HUD's operations, including considerable support for eliminating regional offices. However, there is no written documentation that explains how that material forms the basis for the reorganization or the rationale behind it. The lack of this supporting documentation has made it more difficult to assess how the reorganization will correct the problems the department faces. It may also reflect the haste with which the HUD staff acted to meet the OMB-imposed deadline.

Two Themes Emerge

From the reorganization plan itself, the backup materials, and interviews, it becomes clear that two major themes underlie the Cisneros reorganization. The first is the need for improved accountability. Almost since field offices were created, assistant secretaries have lamented their lack of line authority over the field staff; they could not achieve programmatic goals because the regional offices or field office managers could (and did) divert resources to other uses or set different priorities. This need for improved accountability reinforces the concept of empowering field staff at the lowest levels to make more decisions, giving staff a greater say in how HUD programs are administered in the field, and giving staff more opportunity to act on their own initiative to ensure that HUD serves the people it is mandated to serve.

A second major theme involves putting HUD's customers first. A customer, in the lexicon of the Clinton administration is the taxpayer, program participant, or other end-user. Organization charts have been inverted, showing HUD's customers at the top and HUD headquarters at the bottom, supporting the customer via the field offices. (See Figure 4-3.)

Program Area Implementation Plans

On January 10, 1994, the secretary directed the deputy secretary to establish a unified, departmental, HUD Field Reorganization Implementation Task Force to implement the field restructuring. Program assistant secretaries were given 90 days to develop proposals for managing their areas of responsibility in the field. They announced their plans on March 3,

1994. The major aspects of each of the four major program areas are discussed below. (The plans for each program area are still being refined as this report is being written.)

Program Area No. 1: Housing and the FHA

The assistant secretary for housing began looking at the policy, management, and organizational environment of the department and their impact on service delivery when he first assumed the position. He concluded that Housing-FHA needed to evolve into a new structure, one that would provide the organization with more autonomy on housing finance policy and the means for executing that policy.

After the secretary's December 1, 1993, announcement, the assistant secretary for housing/FHA commissioner assembled two teams. One team, made up entirely of field staff representing both single- and multifamily housing programs and the union, was charged with planning the field reorganization. The second, an intra-program headquarters team with field and union input, was asked to identify opportunities for functional consolidations in the field.

The reorganization plan which resulted includes the following major components:

- The field office housing staffs, which were organized along housing management and housing development functional lines, have been reorganized along single family and multifamily lines (see Figure 4-4). This new structure corresponds with housing's two main lines of business and groups of customers--single family and multifamily--and mirrors the Office of Housing's headquarters structure. Field offices have some flexibility to structure the branches within their divisions to allow for variations in the size and workload of offices.
- A direct reporting relationship between the headquarters Office of Housing and its field office staff has been established. Housing directors in the larger category A offices report directly to the assistant secretary for housing. Multifamily and single family division directors in medium and small field offices report directly to their corresponding program deputy assistant secretary (DAS). Smaller category C offices report directly to the DAS for single family; category D offices report to a division director in a nearby category A or B field office.
- The assistant secretary for housing will appoint five field information advisors to gather information from the field, coordinate special projects, and provide counsel to the assistant secretary and the program DASs concerning programs and operations in an assigned area of the country. These advisors will have no authority over field programs or field administrative resources.

- Field management specialists will be placed within each program DAS's office to gather information and assist in all matters related to the management of field program line operations. These particular staff will provide a support function and will not constitute another layer in the command structure.
- Consolidated processing centers will be developed. A prototype single family processing development center has been targeted to be opened in Denver in fiscal year 1994. Where consolidation frees staff years in single family production, they will be utilized in other understaffed areas of the field offices' housing operations but will do community outreach.

Other activities planned or under consideration for consolidation in fiscal year 1994 include:

- Multifamily property disposition processing centers will be encouraged around the country. The first will handle the workload for the Southwest and the Southeast.
- Multifamily property disposition processing for the Mid-Atlantic will be consolidated.
- Preservation processing for California will be consolidated in San Francisco.
- FHA expertise complementary to state agency risk-sharing participation will be aggregated in various locations around the country.
- Some single family servicing will be consolidated.
- FHA Title I Debt Collection Centers already established in Albany, Chicago and Seattle will be expanded to include other types of debt collection activities in the mainstream single family programs.
- Aggregation of section 202/811 activities will be evaluated.

Program Area No. 2: Public and Indian Housing

The Office of Public and Indian Housing's (PIH) efforts to reorganize field operations predates this administration. In September 1990, PIH contracted with Price Waterhouse to identify how public housing operations in the field could become more effective. In February 1992, Price Waterhouse presented its findings and recommendations and a pilot of the new approach began in the Chicago Region in October 1992. In November 1993, PIH began a one-year process to implement its new field organization nationwide.

The field offices' public housing (PH) divisions are being reorganized to reflect typical public housing authority (PHA) operations that are considered critical to a PHA's success: organization, management and personnel; marketing and leasing; community relations and involvement; finance and budget; and facilities management. (See Figure 4-5.) Reorganizing the staff along these functional lines, plus adding a planning and evaluation component to focus

on the overall picture of individual PHAs as well as trends and patterns of PHAs, is intended to allow the HUD staff to specialize and focus their efforts. It also places a special emphasis on organization, management, and personnel which is considered the most significant critical success area for a PHA.

The functional areas do not necessarily represent branches but areas of staff expertise. In the smallest field offices, there could be a division only (no branches), and staff would be assigned responsibilities in one or more of the functional areas of expertise. Field offices could have up to five branches, depending on their size and staff classifications.

Operationally, a staff team who have expertise in the various functional areas will be formed for each PHA. That team will be responsible for performing for that PHA, HUD's key roles in public housing: PHA performance oversight; compliance assurance; technical assistance coordination; and other ongoing activities, such as monitoring the Section 8 program and helping the PHA develop a five-year plan (related to the Comprehensive Grant Program).

In addition to the structural changes, the reorganization is bringing with it a new approach to doing work within HUD's public housing field offices. Instead of conducting rigidly scheduled reviews of all PHAs, the PH staff will rank PHAs according to potential risk to the department and use that as a basis for working to improve them. Instead of conducting handbook-driven reviews which focus on findings, the field staff will carry out customer-driven oversight activities which focus on working collaboratively with PHAs and encompass problem diagnosis, resolution and follow-up.

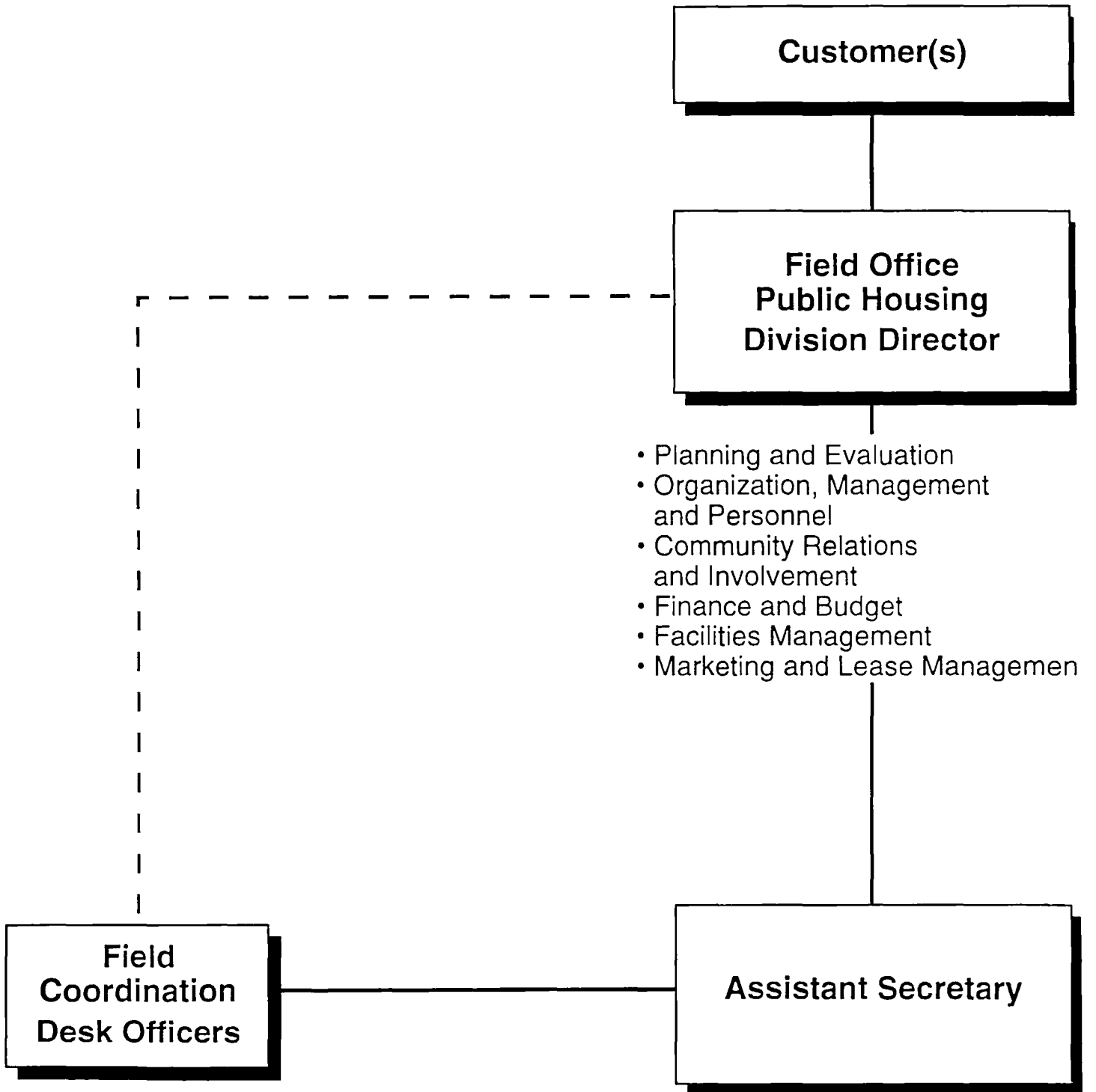
The field office public housing division directors report directly to the assistant secretary for public and Indian housing. Headquarters desk officers will be appointed to act as ombudspersons and facilitate cross-program communication and coordination. They will not have line authority over the field offices. Desk officers will analyze field performance and negotiate and monitor management plan performance.

A selected number of existing field offices will also serve as processing centers, allowing PIH to process competitive grant program applications nationally when fund allocations cannot be assigned directly to field offices and when center processing would be more efficient. The centers may also be used to consolidate public housing development work functions where field offices do not have the skills or staff to handle the workload when it is transferred from Housing. The location and number of processing centers will be identified after a workload analysis is complete.

The Price Waterhouse model had also redefined the regional office public housing divisions' role. It recommended that regional offices:

- Provide field offices with functional expertise in subject areas that: (1) have long term shortages of qualified staff with the requisite knowledge, skills and abilities; and (2) are more cost effectively provided on a centralized basis (e.g., engineering services).

Public and Indian Housing



———— Authority
- - - Coordination

- Assist field offices in the selection of the appropriate strategy for addressing troubled PHAs and providing specialized advice on relevant processes, e.g., developing a work out plan.
- Champion compliance issues vis-a-vis a compliance coordinator charged with developing a broad picture of PHA compliance.
- Develop and maintain formal relationships with nonprofit associations and others who are qualified and well positioned to provide technical assistance.
- Develop analytical frameworks and papers in each functional area for broad distribution.
- Serve as an information clearinghouse to field office staff, thereby facilitating exchange of information about peers as well as providing information about model programs.
- Perform other program and administrative functions, such as review of field offices.

In his initial presentation to the secretary, the assistant secretary for public and Indian housing proposed that five regional service centers be created to perform these functions as well serve as the processing centers and perform the functions now outlined for the desk officers. The secretary disapproved the service center concept because it too closely resembled a regional office structure. The current plan is to have those functions that relate to PHAs be performed by the field offices and those functions that relate to overseeing the field offices revert to headquarters.

Program Area No. 3: Community Planning and Development

The Office of Community Planning and Development (CPD) also began to look at the way it conducted business before the *Reinventing HUD* effort began. Over a period of several months, the office held 20 interactive forums throughout the country which brought together state and local officials, not-for-profit organizations, other users of CPD's service, senior HUD CPD officials from headquarters and the field staff from the host location. The purpose was to ask CPD's clients what HUD did in their communities, what worked well and what did not. The major themes from these sessions were repeated across the country:

- Too much power is centralized in Washington.
- Washington is too far away to have the needed perspective to make decisions that affect the local situation.
- Local HUD staff have no power or the information needed to run its programs.
- Field staff were demoralized.

In addition, CPD's three main programs, HOME, CDBG and its homeless programs, operated as separate fiefdoms, each with its own conferences, consultants, and program development. The programs also had their own planning, approval, and reporting mechanisms.

CPD organized a working group of field and headquarters staff to draft its reorganization plan. To better serve customers and empower the field, the working group took an in-depth look at how CPD's structure could be improved. They had two goals for their efforts:

- Make field staff the decisionmakers by giving them waiver authority. With the responsibility and authority, train the staff and give them the flexibility they need to operate.
- Consolidate the approval and reporting mechanisms for CPD's programs. Require only one plan for each locality which coordinates community development with housing, transportation, economic development, and the provision of human services activities.

As a result of its efforts, the task force concluded that CPD's operations would be improved if the regions were eliminated.

Except for the absence of the regional office, CPD's new field structure will remain the same as it has been. (See Figure 4-6.) During fiscal year 1994, CPD functions will be located in all category A offices. Regional office functions will be performed at the field office or headquarters levels.

Field office division directors report directly to the assistant secretary. An Executive Service and Field Management office in headquarters will support the field offices. Desk officers will be the major interface between headquarters and the field. They are to establish continuous communication and a direct link between the field and the assistant secretary, and serve as an ombudsperson. Desk officers will have no line authority over the field offices.

Program Area No. 4: Fair Housing and Equal Opportunity

To develop its reorganization plan, Fair Housing and Equal Opportunity (FHEO) formed a task force of representatives from each element of management (FHEO regional director, field office manager, director of compliance, etc.), bargaining unit employees from each of FHEO's major offices (compliance, enforcement and operations) and union representatives. The task force reviewed documents submitted by regional/field office directors and staff in response to a questionnaire issued by the assistant secretary, identified reorganization issues, and designed a proposed reorganized structure for FHEO activities in the field.

The most significant change in the field is the establishment of Fair Housing Enforcement Centers and Program Operations and Compliance Centers. (See Figure 4-7.) The 10 Fair Housing Enforcement Centers will be located in the former regional office cities. They will accept, refer and investigate complaints under fair housing statutes and will oversee HUD's equal opportunity employment plan and affirmative action program as part of the fair housing agenda. Program Operations and Compliance Centers will be established in the 10 former regional office cities as well as in 28 smaller field offices. The thrust behind putting operations and compliance together in one branch is to have the compliance and program operations functions work hand-in-hand to implement the civil rights requirements of HUD's programs. Moreover, this organizational arrangement will enable staff to find problems more quickly during monitoring operations and, therefore, reduce the number of lawsuits that result from non-compliance. Program Operations and Compliance Centers will review applications for assistance, review documents, conduct outreach with program participants, provide technical assistance and conduct compliance reviews.

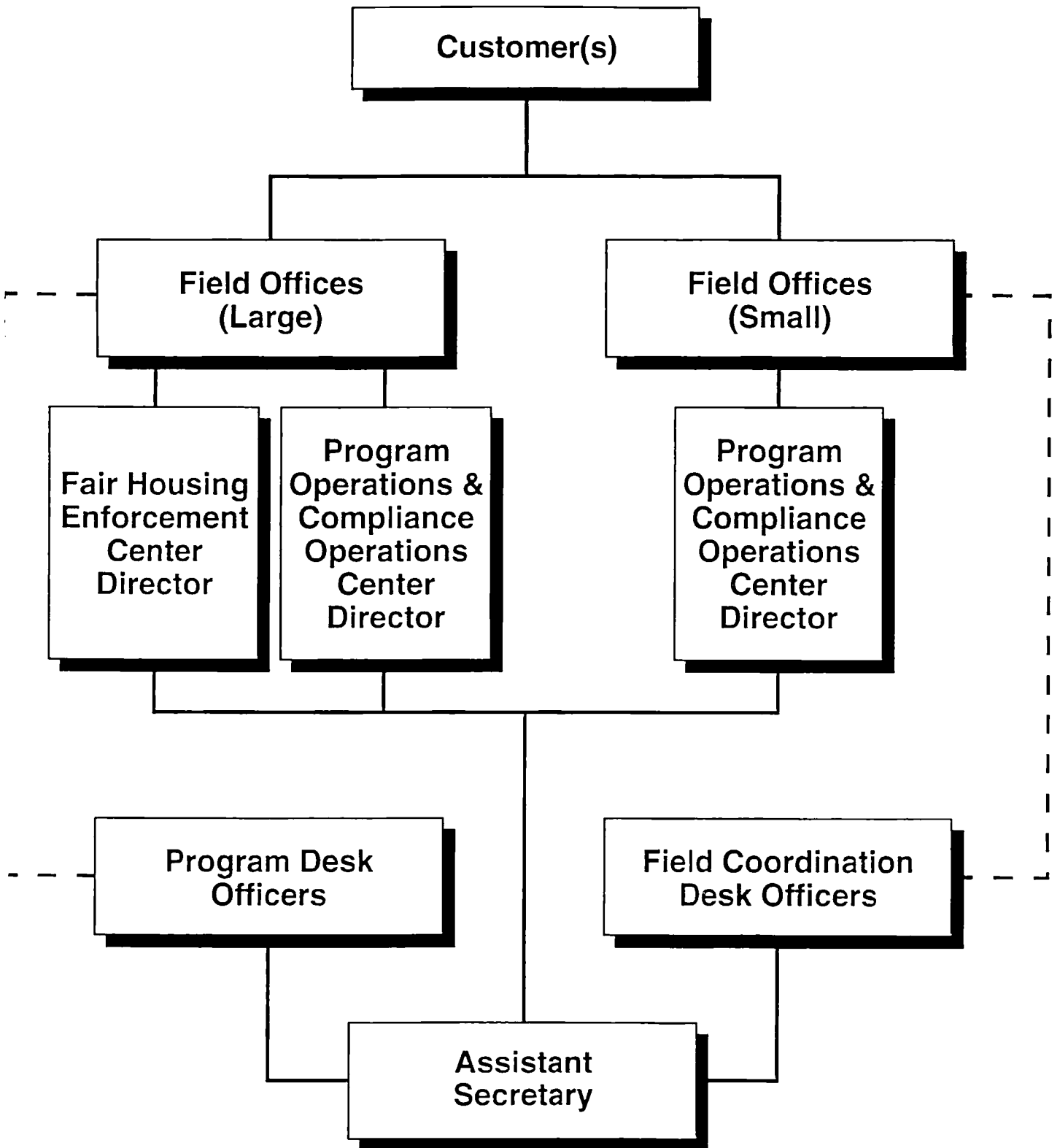
The directors of the enforcement and operations and compliance centers will report directly to the assistant secretary. Program desk officer positions will be established to provide technical assistance and guidance to the field staff. Field coordination desk officers will act as ombudspersons, monitor management plan performance and evaluate field performance. Desk officers will not have line authority over the field offices.

Analysis of Program Area Implementation Plans

NAPA staff have some questions about how well the assistant secretaries' plans will work in practice. In housing, with smaller offices reporting to the DASs and larger offices reporting to the assistant secretary, it is not clear how the total picture of what is going on in each of the two program lines, single family and multifamily operations, will come together.

Running a geographically dispersed organization using desk officers out of Washington will be a difficult task. Considering the declining staff capacity, both in numbers and skills, field offices will need a fair amount of technical assistance. Headquarters already provides a substantial amount of technical assistance, but must be geared to provide even more. Unlike field office managers, the assistant secretaries and desk officers, who are being given responsibility for assessing field office performance, will not be witness to the day-to-day operations of a field office, except for limited site visits. They will not have much first-hand knowledge of staff performance and will have to rely largely on the coordinators for that information. It will be more difficult to monitor the overall performance of the organization. Such a long-distance evaluation process may also place some stress on the performance appraisal system.

Fair Housing and Equal Opportunity



— Authority
- - - Coordination

Perhaps more important to this reorganization than boxes on a chart is that the program areas have examined their operations to determine what needs to be done and have taken steps to identify the positions and skills needed to do it. Changes are most evident in PIH where the generalist position, housing management specialist, is being replaced by specialists in the five critical PHA performance areas. (Although some staff will *specialize* in more than one area.) NAPA staff questioned the reason for making this change, particularly because the department is emphasizing a broader focus when working with its community of users, which implies a need for a more generalist approach and because declining resources often require staff to handle work that is not normally in their areas of expertise. A PIH official explained that the change was deemed necessary to help move staff out of their old work patterns. This methodology can be an effective means to force change when an organization is trying to alter long-standing behaviors.

THE LOCUS OF POWER: WHERE IS IT?

Role of the Secretary's Representatives and State and Area Coordinators

The SRs, appointed by the secretary, are to serve as the secretary's "eyes and ears" for their geographic areas and represent the secretary with governors, mayors, state officials, private sector groups and broad-based interest groups. They are to provide management oversight and evaluation of the SCs/ACs and coordinate the accomplishment of program and management priorities. In addition, SRs are to:

- Act as SC for the state and AC for the field office in which they are physically located (the 10 former regional office cities);
- Take lead responsibility for the implementation of the customer service plans required by Executive Order;
- Evaluate the efficiency and effectiveness of HUD programs within their jurisdiction both externally and internally;
- Serve as the primary point of contact for coordination of HUD and other federal programs within their jurisdiction; and
- Coordinate disaster assistance activities.

SCs/ACs will report to the SRs within their geographic grouping. They are to coordinate the accomplishment of management and program priorities within their respective offices and ensure HUD customers are well served by the department. In addition SCs/ACs are to:

- Represent the department for all HUD programs within their geographic jurisdiction;
- Serve as the department's liaison with state and local officials, private sector organizations and public interest groups;

- Coordinate and implement the customer service plan for their geographic jurisdiction; and
- Evaluate the efficiency and effectiveness of HUD programs within their geographic jurisdictions, both externally and internally.

Secretary's representatives serve as ACs for the field offices in the former regional office cities, as well as SCs for the states in which they are located. In the other nine states that have more than one field office, SCs also serve as ACs for the offices where they are physically located. NAPA staff questioned whether these multiple roles might dilute the coordination positions. A senior HUD official working on the reorganization planning did not see that as a problem. According to him, the SRs, SCs and ACs will divide up their time between their various responsibilities depending on what is going on in each state.

The SRs, SCs and ACs have no line authority over the field offices. When field managers asked the secretary how he expected them to ensure coordination was accomplished within the field offices now that they no longer have line authority over the divisions' operations, the secretary responded that they will need to use their "guile, wits and persuasive powers." Of those HUD staff who were asked their views by NAPA on the pros and cons of taking field managers out of the line, the majority cited concerns about HUD's ability to coordinate its programs as effectively. The major benefit most cited was improved accountability for program operations.

At the end of February 1994, a small group of SRs and SCs/ACs met in Kansas City with the chair of HUD's Reorganization Implementation Task Force to help define their roles and responsibilities within the new organizational structure. At that meeting, they identified several *issues of interest* in the areas of field structure, reporting relationships, communications, administrative issues and customer service plans. The Reorganization Implementation Task Force is dealing with these questions as it does its work.

Enhancing the Community Role: The Community Partnership Plan

The newly organized HUD is placing great emphasis on creating partnerships with communities and taking a holistic approach to providing service to them. The SR or SC/AC working with the community and the HUD field office, is to produce a community partnership plan (customer services plan) which will provide an assessment of local needs and priorities, identify public and private resources that are available in each community and establish a framework that outlines the roles the various entities can play to address these needs. Two factors will significantly affect the success of community partnership plans--the department's own planning and goal setting processes and the abilities of the SRs, SCs and ACs.

HUD's planning and goal-setting processes

Currently, there is no clear mechanism to ensure that community partnership plans will become working documents from which the field office divisions will operate. In the past, there has been little evidence of a coordinating force in HUD headquarters that compels the program

areas to respond to new initiatives and directives and develop programmatic goals in a coordinated fashion, with the focus being to meet the varying needs of communities. To a large extent, programmatic goals have been created independently by the assistant secretaries' headquarters offices, without much regard for other program areas or how those goals might require tailoring to fit the needs of individual communities.

While the need for coordinating programs across office lines could be debated in the past, holistic service to communities mandates that a more collaborative approach to planning and goal setting be taken in headquarters. In addition, with HUD's customers driving the system, headquarters can no longer assume that the mold cast in Washington always fits the needs of communities. As a result, programmatic goals may need to be recast to reflect the new priority of community needs.

As a result of the *Reinventing HUD* process, the department is developing a strategic performance system. Chapter Five of this report discusses HUD's efforts in greater detail and the panel's recommendations to strengthen the system's current design. It is within the context of HUD's strategic performance system that community partnership plans can be supported by the department.

SR and SC/AC capabilities

Secretary's representatives are political appointees. Thus, the administration has an opportunity to select individuals with the knowledge, skills, abilities and experience to do the job effectively. SC and AC positions will be filled initially by HUD's field office managers. For them, this is a significant change in the nature of their jobs. For some, the transition will be fairly easy. They will have managed a full-service office, have a fairly good understanding of HUD programs and have the needed skills to perform the work. For others without the experience, knowledge and skills, the change will be more difficult.

Nineteen states have only category B, C or D offices. The managers of those offices who are now designated state coordinators, may never have had to deal with the full range of HUD programs and may have had little experience working with state and local officials to coordinate the delivery of program services designed to meet customer needs. The same is true for non-category A office managers who are to become area coordinators. Even for some field office managers in category A offices, coordination-type activities may not have been a significant part of how they spent their time and they may not have the level of program knowledge needed to perform their new job. To equip the SCs/ACs with the program knowledge needed to coordinate HUD's activities effectively, they are to be cross trained in all HUD programs.

INITIAL IMPLEMENTATION AND TIMETABLE FOR COMPLETION

Reorganization implementation officially began on April 15, 1994 and is scheduled to be completed by September 30, 1994. Change actually began, however, in winter 1993-94. Within a few weeks of the December announcement, some field office divisions were already bypassing field and regional management on some issues. Several field office managers and regional

managers told NAPA they were no longer receiving correspondence from assistant secretaries. It was being sent directly to the field office division directors.

By March, some assistant secretaries already had delegated authority to field office division directors. The assistant secretary for housing delegated complete waiver authority for all housing handbooks and notices. The assistant secretary for public and Indian housing authorized field office directors to make some non-statutory and non-regulatory waivers. Thus, the goal of empowering field staff to make decisions was starting to be realized even as plans were being finalized.

Furthermore, assistant secretaries were by March given control over the resources within their program areas. A memorandum on interim personnel procedures from the deputy secretary to principal staff dated February 23, 1994, withdrew the field's authority to detail or reassign staff among program areas. Prior to that date, a field office manager could temporarily detail staff between program areas to respond to shifts in workload and a dwindling number of staff.

NAPA ANALYSIS OF BROAD REORGANIZATION ISSUES

HUD began its reinvention efforts early in the Clinton administration. Spurred by NPR recommendations, the secretary announced a new structure for HUD that eliminated regional offices and the field office manager positions. Field staff have worked with program assistant secretaries to prepare their implementation plans, but staff (even senior staff) involvement in the reorganization design process appears to have been limited. Regional administrators were never assembled during the design process to discuss reorganization alternatives. Field office managers were brought to Washington only once to discuss reorganization plans. The final outcome seems to be driven more by the strong desires of some assistant secretaries for line authority over the field offices, rather than by the need to integrate HUD's programs at the community level.

NPR appears to have pushed HUD into a hasty reorganization. Developing plans to streamline an organization is a large undertaking even for an organization that is operating fairly efficiently. It requires the careful analysis of problems and inefficiencies throughout the organization and the identification of alternative solutions. Developing plans to reorganize a troubled organization is an even larger task. Despite the groundwork laid by the Reinvention Task Force, much needed analysis and planning still remained to be done at the time of the December announcement. Important changes to the reorganization proposal continued to be made just days before it was announced. Many critical decisions, such as the roles of the SRs and SCs/ACs and the fate of regional accounting and personnel divisions still had not been made four months after the announcement.

In a November 1993 letter to HUD, the Academy panel expressed concern about the proposed reorganization plan. Principally, the new, bureau-like structure did not foster a holistic approach to serving communities, and the secretary's representatives might lack the clout to settle disputes among field office program division directors and "make things happen" at the local level. It was not clear how the proposed changes were tied to problems in delivering programs, or whether HUD planned to restructure and consolidate its field offices, which could

streamline its service delivery. The panel also expressed concern about the loss of staff productivity that often surrounds a major reorganization.

Although HUD responded to each of the panel's concerns, many underlying issues remain. A discussion of how well the reorganization plan embodies its own themes and succeeds in meeting its own goals follows.

Improved Accountability and Putting the Customer First

The need to improve accountability and to deal more effectively with the total needs of HUD's customers are two of the primary reasons used to support the reorganization. Two assumptions underlay HUD's former organizational structure:

- Accountability for meeting programmatic goals is fragmented, and
- It has not lent itself to providing unified services to communities, coordinating the work of various federal agencies or helping communities solve their problems.

The reorganization has clarified lines of authority and defined who is accountable for results within each program area--the assistant secretaries and program division directors in the field offices. As accountability along program lines may be improved, however, accountability for coordinating services to communities is diminished. The assistant secretaries and program division directors are directly accountable only for delivering their legislatively mandated programs, not for delivering coordinated services to communities.

The responsibility for program coordination and community outreach rests with the secretary's representatives and the state and area coordinators who report to them. Without decision-making authority, the three sets of coordinators can only hope to persuade HUD field staff to follow a course of action and resolve differences of opinion between program areas or HUD and the communities it serves. Those issues that cannot be resolved must be elevated to headquarters, regardless of how major or minor the problem. Although secretary's representatives and state and area coordinators may have some influence through their input into the division directors' performance appraisals (10 percent of each appraisal), coordinators will rely heavily on their persuasive powers.

Initially, a major factor affecting their success will be the degree to which the SRs, SCs and ACs and the division directors work together as a team. Many of the field office managers invested in building a management team under the old structure. They are respected by their staffs and they will continue to be sought out for advice and counsel. In all likelihood, they will be successful in their new role even without line authority. Generally, however, when volunteerism is operating rather than line authority, managing becomes a more subtle act. With line authority, a manager can say, "Let's move in this direction," instead of suggesting or persuading others to follow a course of action.

In addition to the relationship coordinators establish with division directors, the perception of their new role by the communities they serve will play a significant part in their

success. The communities HUD serves want services provided and problems solved. They are going to want to deal with individuals who have the responsibility and authority to do that. Unless the SRs, SCs and ACs are key players in the process, there will be a tendency for HUD's customers to bypass them and deal directly with the divisions or headquarters.

Develop One-Stop Shopping

HUD has four categories of field offices, each with different program responsibilities. Except for 20 of HUD's 80 field offices,⁶ the geographic area of jurisdiction for these offices overlap. Field staff say that program coordination suffers; the public is often confused about which HUD office to call for a problem. Table 4-3 depicts the responsibilities and overlapping jurisdictions of HUD's field offices.

Twenty geographic areas throughout the country work with just one HUD category A office for all of HUD's programs. But the communities in another 40 areas are served by more than one HUD field office:

- Twenty areas are served by both a category A and C office;
- Eleven areas are served by both a category A and B office;
- Five areas are served by both a category A and D office;
- Two areas are served by a combination of category A, B and C offices; and
- Two areas are served by a combination of category A, B and D offices.⁷

Table 4-3 shows that many geographic areas have no single field office responsible for the full range of HUD programs. This organizational structure makes it difficult for HUD's customers and its staff to work together in support of the strategies and goals of communities.

When NAPA staff asked whether 81 field offices were needed, everyone to whom the question was posed said no. Information, telecommunications, and transportation systems make it unnecessary to keep HUD's small, limited service offices. HUD's reorganization plans do not close any offices. The assistant secretaries have been tasked, however, with determining the optimum number of offices and staff needed to perform their functions.

**Table 4-3
Geographic Jurisdictions and Program Responsibilities of HUD Field Offices**

Field Office Category	Geographic Area of Jurisdiction	Program Responsibilities
Category A (Offices, including 10 that are co-located with a Regional Office)	The 40 Category A areas cover the entire United States	20 Offices: All programs for the entire geographic area. 20 Offices: All programs for only a portion of the area; in the rest of the area, some programs are handled separately by Category B, C, and/or D Offices (see below)
Category B (11 Offices)	A portion of a Category A Office's area	Housing and Public Housing programs only
Category C (22 Offices)	A portion of the area of a Category A or Category B Office	Single Family Housing programs only, according to the handbook. However, 6 Offices use a total of 77 FTE for multifamily management activities, and one uses about 9 FTE for public housing activities.
Category D (7 Offices)	A portion of the area of a Category A or a Category B Office	Single Family loan origination functions only

Working Within the Existing Structure to Serve Communities: The Buffalo Experience

While Secretary Cisneros has placed a renewed emphasis on putting communities first, NAPA staff found some field offices were already trying to take a coordinated approach to working with communities. Several field managers NAPA spoke with were regularly taking their entire management team to meet with officials in the communities they serve or have used inter-program task forces in an effort to better coordinate service delivery. The Buffalo field office is an example of where an inter-program approach has been applied and, as a result, HUD has been instrumental in helping communities undergo major revitalization efforts. (A case study on this effort can be found in Chapter Three.)

In the late 1980s, the Buffalo field office manager introduced Total Quality Management (TQM) to his staff. With free consultation and training provided by Corning Glassworks, all managers, supervisors and employees in the Buffalo field office received awareness training. The focus for their new way of doing business was to be the customer and increased employee

responsibility. The office experimented with pulling together teams of staff from various program areas to work on major neighborhood revitalization efforts in Buffalo, Utica and Rochester, New York.

The projects in these three cities involved a number of HUD programs, some with conflicting requirements, as well as other federal and state programs. As the HUD teams worked with the communities on these projects, they established partnerships with community development officials and many other organizations and interest groups such as churches, local lending institutions, neighborhood business groups and resident groups. HUD staff worked collaboratively with the communities on task forces to address the various issues surrounding each of the projects.

In addition to conflicting program requirements, the inter-program approach to doing business in the Buffalo field office encountered other problems. Program regulations and headquarters' goals sometimes conflicted with what the community wanted to accomplish. Working in partnership with communities required staff to think creatively beyond the rules and handbooks--something many were not accustomed to doing. The field office manager had to take a strong leadership role to overcome the difficulties. The field manager helped his staff see how these projects are what the secretary is talking about when he speaks of taking a holistic approach to working with communities.

NAPA staff spoke with individuals in the three cities who were involved in the revitalization projects and who worked extensively with the HUD staff. All believed that their projects with HUD were very successful and spoke very positively about HUD's approach to working with the community. According to all three, key elements to the success of their projects was the inter-program approach taken by HUD and the leadership role of the field office manager.

The inter-program approach to doing business in the Buffalo field office has not been without cost, however. It is a more time consuming process for staff than the old way of doing business. Working in partnership with communities has required the staff to change their cultural orientation toward their work. The field manager has had to train his staff in TQM principles to orient the staff to a new way of doing business and to give them skills to make that change.

Implications of Inter-Program Teams for Organization Structure

If Secretary Cisneros' goal for developing a community-focused agenda for HUD is to be realized, the panel has reservations about the extent to which the proposed reorganization will permit various programs to be brought together to meet that goal. The HUD-Community Partnerships described in *Reinventing HUD* include no mention of the program offices, responsibility for forging these partnerships and ensuring that inter-program coordination occurs.

HUD needs a strong element of inter-program coordination. For example, programs for the secretary's top priority, the homeless, should involve all of HUD's divisions through its community-based, field offices. HUD projects in the Buffalo field office are excellent examples of how coordinated service delivery with strong field leadership can successfully meet the needs

of communities. If one goal of the reorganization is to enable HUD to pull its program resources together to be used flexibly by communities, mechanisms must be institutionalized to see that this happens. The lifespan of these mechanisms must transcend that of the current administration. While the SR and SC/AC positions may have been designed to be such a mechanism, historically in the federal government, power has been vested in the authority to make decisions, not in coordinating collaborative problem solving efforts.

Other agencies' experience with using secretary's representatives to coordinate and evaluate vertically structured organizations with line authority based in Washington offers little hope for their success in HUD. The Departments of Transportation; Health, Education and Welfare; Interior; and Agriculture attempted to use field officials in capacities similar to what HUD is proposing. All failed.

In the Department of Transportation, secretary's representatives originally reported to the secretary and could have access to any headquarters' official. Because they were non-career positions, however, considerations other than management skill and knowledge of DOT programs influenced a number of secretarial representative appointments. Several ineffective SRs needed career assistants and field officials' assistance in order to function. In 1977, they ceased to be real secretary's representatives when they began reporting through the assistant secretary for governmental affairs. In 1989, the positions were eliminated by Congress with the statement that "these personnel have no line authority over department field personnel and little influence over departmental programs and policy matters, and cannot be justified in times of budget austerity."

Community needs almost always cut across program areas, and mechanisms that help HUD meet those needs might look different from community to community. Those mechanisms need not affect HUD's structure. In one field office, one division director could take the lead for cross-cutting issues. In another, a derivative of the negotiated investment strategy (NIS) could be instituted, which was discussed in Chapter Three. Among the problems that NIS designers attempted to resolve were:

- "The federal government has not been able to respond in a coordinated way to the needs of any one community."
- "Myriad federal grants-in-aid and regulations are often in conflict."
- "Little attention is given to how individual programs relate to each other in the achievement of broad objectives."
- "Programs are narrowly defined around specialized functions."⁸

These problems are remarkably similar to those raised in relation to HUD and its programs. The lessons learned from the NIS experiments could prove valuable for HUD to ensure that inter-program coordination issues are adequately dealt with.

CONCLUSIONS AND RECOMMENDATIONS ON THE CISNEROS REORGANIZATION

A proliferation of programs and a decline in staff levels in the past decade have focused HUD's energies on program management and technical program requirements rather than on meeting the comprehensive needs of communities. Though the field office manager position had cross-program authority to manage HUD's work, HUD had few incentives in its management systems and little support from headquarters to encourage these individuals to serve communities in a holistic fashion. The combination of HUD's strong emphasis on ensuring compliance with regulations and the continually declining staff meant that the field office managers focused most on HUD's role as monitor and on reallocating staff to fight the fires of the day. While the reorganization attempts to address the need for a holistic approach to doing business, the Academy panel does not believe that the new organizational structure will enable HUD to achieve that goal.

The Academy panel knows the old structure was not working well. The panel also recognizes that program assistant secretaries need involvement in how work is done in the field. Though HUD's programs need to be sufficiently flexible to meet communities' needs, the department operates nationwide and its policies and operating procedures must be consistent and its decisions timely. However, the panel believes this could have been accomplished by delegating program decisions to field staff, as most assistant secretaries have now done, without totally removing a field-based decision maker who is responsible for HUD's operations within a given jurisdiction.

The new structure, while strengthening accountability along program lines, weakens it from an inter-program perspective because no one with decision-making authority below the secretary is responsible for the latter. The functions the SRs, SCs, and ACs are to perform are critical to providing coordinated service to communities. Yet, the jobs have responsibility with no authority. The coordinators can only persuade those in the line to follow a course of action. If the SC or AC cannot reach agreement with a division director on a course of action, the problem, regardless of its relative importance must be elevated to headquarters for resolution. Headquarters decisionmakers are too far removed from the situations in the field to make the best decisions in a timely manner.

As now structured, the roles, responsibilities and jurisdictional areas of the secretary's representatives and state and area coordinators overlap one another. Within a given geographic area, all three could meet with city officials as part of their outreach and coordination functions, as could the field office program division directors, creating confusion for HUD and the communities. The secretary's representatives also have too many roles to be effective in their outreach efforts. Based on the experience of many of the former regional administrators, secretary's representatives will become too involved in the major metropolitan areas in which they are located to deal adequately with state and regional issues. The panel believes that secretary's representatives should focus on the multi-state and inter-departmental components of the job. They should be the senior officials representing HUD at inter-departmental forums on federal housing or community and/or economic development, which the panel recommended in

Chapter Three. In addition, because these are political positions whose appointees will serve relatively short terms, some continuity should be provided to support the work of the secretary's representatives.

The Academy panel recommends that HUD:

- ◆ **Define the roles and responsibilities of secretary's representatives and state and area coordinators so that they do not overlap one another or cause communities to deal with multiple HUD officials on the same or similar topics.**
- ◆ **Select, as area coordinator for the former regional office cities, an experienced HUD manager. The area coordinators for those offices should also be the state coordinators.**
- ◆ **Confine the secretary's representatives' responsibilities to multi-state and inter-departmental issues, and provide them a small staff, separate from the HUD area office, to assist in and give continuity to this work.**

To achieve its goal of providing coordinated service delivery to communities, the entire department's attitude toward how it provides services to communities must change. HUD must go beyond designating inter-program coordination positions for its field offices. Staff must also be responsible and accountable for coordinating HUD's programs and taking a holistic approach to working with communities. HUD must create an environment that encourages innovation, pride in work, open communication, information-sharing, and cooperation across program areas. The culture of the department must change to reflect these values and staff must be trained to work in this new environment. Program assistant secretaries play a key role in communicating these values to their staffs, both in headquarters and the field. Jobs must be redefined, new ways of doing business must be identified, and the staff must be evaluated accordingly.

PIH has begun to make these types of changes in its public housing operations. Instead of conducting narrowly focused reviews that only identify problems, the PH field staff will carry out customer-driven oversight activities that focus on working collaboratively with PHAs and encompass problem diagnosis, resolution, and follow-up. However, the change must be broader in scope to encompass the entire department. It must occur not just within each program area but across program areas and must address how all of HUD's major program areas work with one another and all of HUD's customers.

The Academy panel recommends that HUD:

- ◆ **Analyze how HUD's program areas must change the way they do business to provide holistic services to communities rather than solely program-focused assistance.**

- ◆ **Make program assistant secretaries responsible for inter-program coordination, provide incentives for accomplishing this, and regularly evaluate via formal studies how well programs are coordinated.**

The department must have field coordination mechanisms within which HUD can effectively participate with communities in their housing and community development efforts. In taking away the field office managers' programmatic decision-making authority, HUD has not given sufficient consideration to an operating model HUD's Buffalo field office uses, which the panel found to be an excellent example of how HUD can coordinate its programs to work with communities. Under the leadership of the field office manager, inter-program teams of HUD staff work with state and local officials and other community leaders to manage community-focused development or homeownership projects.

The Academy panel recommends that HUD:

- ◆ **Pilot test alternative organizational models and mechanisms, such as the inter-program approach being used in the Buffalo field office, to determine whether these methods should be introduced in other field offices.**

The reorganization means field offices lose nearly all flexibility at the local level to reallocate staff among program areas to meet workload demands or accommodate staffing changes. With field managers out of the line, decisions to detail staff among program areas will now be made in headquarters where individual programmatic priorities are likely to take precedence over field office priorities. Detailing staff within the same program area from one field office to another is not a practical solution to the problem considering the number of times it is likely to occur. The Department reports that it has established a communication mechanism to allow state/area coordinators and program directors to address problems promptly in an emergency situation. However, particularly in a time of decreasing resources, HUD's field offices need a decision-making mechanism to address temporary workload and staffing problems quickly.

The Academy panel recommends that HUD:

- ◆ **Develop a decision-making process by which field offices have some discretion to deal with temporary staffing problems caused by shifts in workload or the loss of staff.**

HUD's future in the arena of community development lies in the partnerships it forms with communities. The community partnership plans should become the vehicle that HUD, as well as other federal departments, uses to provide resources to communities. While community plans must be driven at the local level, HUD should be standing behind the nation's communities to give the needed support, or push, to move their comprehensive planning efforts forward.

HUD must devote adequate resources to working collaboratively with communities if it is to become a true partner in the intergovernmental community. Considering the number of HUD programs and how often they change, no single individual can be well versed in all of them. Yet, without that knowledge, it is unlikely an SR or SC/AC can help communities identify how to use most effectively HUD's or other federal programs. If providing this kind of coordinated service delivery is truly a high priority for the department, then its resource allocations should reflect it.

The Academy panel recommends that HUD:

- ◆ **Allocate a small number of staff to the state coordinator, based on the amount of HUD activity in a state and the needs of the communities in each state.**

State and area coordinators will need considerable knowledge about all of HUD's programs if they are to negotiate successfully and influence community plans and HUD's involvement in those plans. Providing a one-time training program on HUD's programs, as is now planned, is not sufficient. HUD needs to identify top career talent for these positions and provide these staff a special management development program.

The Academy panel recommends that HUD:

- ◆ **Select, through a merit promotion process, staff whose careers demonstrate they can work well with community leaders and are able to work comfortably across the complexity of HUD's programs.**
- ◆ **Develop, as part of its revitalized training program, a mix of classroom and experience-based instruction that prepares a cadre of staff for state and area coordinator positions and for headquarters' positions to manage inter-program coordination.**

Communities in 40 geographic areas across the country must work with more than one field office to access the full complement of HUD's programs. This organization structure makes it difficult for HUD's customers and its staff to work together in support of the strategies and goals of communities.

Changes in workload and advances in communication technology mean that the HUD of the future will not need 81 offices scattered throughout the country. With processing centers handling *location neutral* activities, HUD can function with a smaller number of full-service offices that have outreach programs actively forming partnerships with communities. That does not mean that HUD needs to be a lesser player in the nation's communities. HUD needs to be able to organize its work and allocate its staff to best fulfill its mission and to support inter-governmental and organizational partnerships that build on community priorities.

The Academy panel recommends that HUD:

- ◆ **Maximize the use of processing centers to handle location neutral activities.**
- ◆ **Use the next two years to determine the number of offices needed to perform its mission effectively and propose to Congress the needed workplace and workforce realignments.**

The panel is very aware that efforts to close offices in the past have failed and that these are sensitive issues. When these discussions are brought into the open and carefully planned, HUD's leadership and the unions can enter the discussion and help develop the plans in ways that are least disruptive to staff and their families.

Secretary Cisneros has recognized the importance of community as evidenced by his goal to create a customer-driven HUD that takes a holistic approach to working with communities. He speaks of wanting HUD to become a partner—to work as a team—with communities. However, the panel doubts his reorganization plan will permit that goal to become a reality. HUD's organization structure remains an implicitly programmatic one, with power and authority resting within programmatic stovepipes. Such a structure works best when a department's components, such as DOT's, have relatively little need to interact with one another at the point of service delivery. Never, for example, has a Coast Guard cutter been called in to rescue a mass transit vehicle. However, HUD must coordinate its programs if it is to effectively support the communities it serves. As long as HUD's field structure is tied to the programs it administers rather than geared to helping communities leverage resources (HUD's and others'), it is not likely HUD will be an effective partner. The panel believes that ultimately, HUD must readdress the issue of providing field-level decision-making authority to area coordinators to work through inter-program issues among HUD staff and with communities.

HUD's new field structure lacks a strong inter-program approach to organizing staff, and therefore, its work. If HUD were to organize to maximize an inter-program approach to serving communities, it might create field offices comprised of community service teams responsible for all of HUD's program areas. These teams would work collaboratively with designated communities in an environment in which they have flexibility and decision-making authority to best meet communities' needs. The field office structure and its work would be community-focused, not program-focused.

HUD's structure has evolved to reflect its major program areas. As the individuals accountable to the secretary for effectively delivering HUD's programs, program assistant secretaries need to set the policies for program operations and must have a strong voice in how staff are assigned and trained to operate the programs. Now, however, there is in the department a renewed emphasis on the community. It is not clear that the tension between increased program accountability and putting communities first can be accommodated with this structure. HUD needs to evaluate how its new structure is meeting these goals. If it proves less than successful, HUD must remain flexible enough to move in another direction.

The Academy panel recommends that HUD:

- ◆ **Establish criteria for successfully meeting the goals of increased program accountability and putting communities first and evaluate whether the organization structure needs to be modified to better meet those goals.**

**THE FEDERAL HOUSING ADMINISTRATION:
CONSIDERATIONS FOR A CORPORATE STRUCTURE**

FHA is in the business of providing the insurance that encourages private capital flow to mortgages that private sector lenders would otherwise not underwrite. Should HUD be running a business--FHA--when it is not permitted to function as one? FHA cannot protect its investments by properly maintaining them, promptly respond to market forces, adopt new technologies, or readily issue new products when it determines these would better serve the nation. At a time when the real estate industry and the financing mechanisms associated with it have been changing rapidly, FHA's government management systems do not permit it to spend reasonable amounts of money to avoid major long-term problems, hire the skills it needs, or keep its workforce adequately trained.

FHA was established under the National Housing Act of 1934, with its corporate powers initially resident in the corporation itself, making it an autonomous entity. The Housing Act of 1948 made FHA subject to the accounting and financial reporting requirements of the Government Corporation Control Act,⁹ and it is still listed as a government corporation in that section of the U.S. Code.

In 1965, Congress assigned the corporate powers of FHA to the secretary of HUD, who has delegated them to the assistant secretary for housing/FHA commissioner (ASH/FHA). Because of its integration with HUD, FHA functions more like an executive branch agency that receives funding solely from congressional appropriations than as a corporate entity that generates substantial revenue--which it is and does. GNMA, another corporation housed within HUD, guarantees securities using loans insured or guaranteed by FHA, VA or FmHA as collateral. Legislatively authorized in 1968, GNMA is a wholly-owned government corporation subject to the authority of the HUD secretary.

Why Reconsider the Status of FHA?

Even before FHA was part of HUD, when it was made part of HHFA in 1947, there have been advocates for making it a separate entity. Some proposals grow out of the frustration of dealing with a short-staffed organization that cannot meet developer and lender timeframes and thus may end up contributing to the cost of doing business in the housing industry. People refer to the days when FHA processed its work more quickly and was a player in the housing industry. Others note that the FHA of today is a more socially aware organization than it was a couple decades ago, and it would be a major loss to the nation's affordable housing initiatives if it were to focus on being self-sustaining.

The Academy panel decided to examine the organizational placement of FHA for several reasons:

- FHA's business-type functions are quite dissimilar from HUD's other roles, and the different missions may require different organizational structures to operate effectively;
- As a government corporation, FHA's governance options are broader than a traditional department or agency, and another option may permit FHA to be a more effective vehicle to meet the nation's affordable housing needs; and
- The issue is again under discussion within HUD itself.

Terminology Is Important

The terms *corporation* and *enterprise* once were used quite interchangeably in federal administration. Given adoption of the term *government sponsored enterprise* (GSE), it is now more important to be specific about terminology.

A GSE is a privately owned, federally chartered financial institution with nationwide scope and specialized lending powers that benefits from an implicit federal guarantee to enhance its ability to borrow money.¹⁰ There are eight GSEs--Fannie Mae, Freddie Mac, Sallie Mae, the Farm Credit System, the Federal Home Loan Bank System, Farmer Mac, the Financing Corporation (FICO), and the Resolution Funding Corporation (REF-Corp). Fannie Mae, of course, used to be part of HUD, and became fully privately owned in 1968. FICO and REF-Corp fund government closure of insolvent thrift institutions.¹¹

Government corporations are government organizations. They have separate juridical personalities, and they have only those powers that Congress includes in their individual enabling acts.¹² While there may be major differences among corporations, a corporate entity commonly possesses the following attributes:¹³

- **Legal status:** separate legal personality distinct from that of the United States. It can sue and be sued, acquire property and borrow money in its own name without directly pledging the credit of the United States.
- **Expenditures:** the power to determine the character and necessity for its obligations and expenditures, and the manner in which they shall be incurred, allowed and paid, subject to provisions of law that specifically apply to government corporations. They are exempted from regulatory and prohibitory statutes and their accounts are not settled by the comptroller general.

- **Financing:** can retain and use revenues for any of the purposes of the corporation without congressional appropriations. Corporations may also be authorized to borrow from the U.S. Treasury, Federal Financing Bank or the public for purposes specified by law. Congress can direct that a service be provided at less than cost, with requisite congressional appropriations to reimburse the corporation for revenues lost or foregone.
- **Rates and prices:** able to fix rates and prices for goods and services in accordance with statutory authorization to do so. (This rate-setting process may include policy guidance from a cabinet secretary.)
- **Budget:** prepare annual, business-type budgets that provide for corporate programs but do not constitute limitations on corporate expenditures with the possible exception of administrative expenses. Some corporations are subject to the sequestration provisions of the Gramm-Rudman-Hollings Act. However, several corporations, including the Federal Deposit Insurance Corporation, have been exempted from this statute.
- **Accounts and audits:** maintain commercial accounts that are audited by the comptroller general or by independent auditors in accordance with principles and procedures applicable to commercial corporate transactions. The 1990 Chief Financial Officers Act amended the Government Corporation Control Act to require government corporations to submit an annual management report to Congress, including statements of financial position, operations, cash flows, reconciliations to the budget report of the corporation, if applicable, and internal accounting and administrative control systems.¹⁴
- **Personnel:** subject to civil service laws and regulations, unless specifically exempted by the corporate charter. (Some are.) Congress may also grant special authorities with respect to hiring and compensating personnel. Sometimes it does this by permitting the corporation to operate outside the parameters of federal civil service regulations, while still requiring it to operate a merit-based system with similar components. Conflict-of-interest laws and travel regulations apply to government corporation employees. However, corporations are rarely subject to specific limitations on travel expenditures.

A significant difference between a corporation and traditional agencies is that powers are vested in the corporation, not the head of the department. There is more background on government corporations later in this chapter.

Changes Underway at FHA

Within the broader HUD environment, FHA has been subjected to literally dozens of changes to aspects of its structure and operations. The criteria for making these choices have

not focused on enabling FHA to provide cost-effective insurance for single and multifamily mortgages for those who may not otherwise be able to acquire them. Rather, the decisions have been political choices (in a non-partisan sense) based on what each secretary or FHA commissioner believed appropriate. Although their individual judgments may each have been sound, the collective reorganizations and constant change have been chaotic for effective business operations.

Under the current administration, Housing/FHA was the organizational component that moved most expeditiously to reorganize and streamline its operation. Under the parameters of HUD's 1994 reorganization, the assistant secretary noted the objectives are to:

- Provide more customer-oriented and user-friendly services.
- Place as much day-to-day decision making outside Washington as possible.
- Reduce the number of supervisors.
- Instill top-to-bottom accountability in program delivery.
- Keep pace with changes in the financial services community.
- Do more with fewer resources in line with the vice president's National Program Review (NPR) recommendations.¹⁵

In November 1993, the ASH/FHA commissioner delegated complete waiver authority for all housing handbooks and notices, thus empowering field staff to make decisions they used to forward to the regional office, which might in turn have to forward to Washington. FHA is restructuring its field organization along its major product lines, single family and multifamily housing, a change from the approach in which Category A and B offices divided housing activities into development and management. These and other FHA changes were discussed earlier in this chapter.

Federal Housing Administration Today

Since 1934, FHA has insured more than 51 million loans. FHA administers programs in three distinct areas:

- Single family insurance makes mortgage credit more readily available to low- and moderate-income home buyers by insuring commercial lenders against loss on one-to-four family property mortgages.
- Multifamily Insurance is designed to meet the needs for affordable rental housing, cooperatives, and condominiums through a variety of insurance programs; provide adequate and safe rental units; preserve the existing stock; and expand opportunities for resident management and homeownership.

- Title I Insurance began as an insurance program to help homeowners finance home improvements. The program was expanded to include insurance for the purchase of manufactured homes and lots.

FHA annually underwrites new insurance for between 800,000 and 1 million new dwelling units, for between \$60 billion and \$75 billion in new federal insurance. At the end of fiscal year 1992, FHA had over \$378 billion of insurance in force.¹⁶

There are 39 active FHA insurance programs and several more authorized but not yet funded through either the 1990 or 1992 National Affordable Housing Acts. Some target very specific recipients (such as the applicants for single family loans on Hawaiian Homelands), while others apply to major cross-sections of the home buying public (such as the Basic Home Mortgage Insurance Program).

FHA's programs are controlled through four major insurance funds¹⁷:

- The Mutual Mortgage Insurance (MMI) Fund supports single family mortgage insurance and is the largest.
- The General Insurance (GI) Fund supports insurance for loans for multifamily housing, cooperative apartments, condominiums, housing for the elderly, manufactured housing, property improvement loans, and nonprofit hospital projects.
- The Special Risk Insurance (SRI) Fund supports mortgage insurance on loans to high-risk home buyers, generally eligible for subsidized interest rates and rental housing.
- The Cooperative Management Housing Insurance (CMHI) Fund, the smallest, provides for insurance issued on market rate cooperative apartment projects. This insurance has not been written since the mid-1970s.

The MMI and CMHI Funds are (by law) mutual funds, whereby excess net revenues may be returned to mortgagors at HUD's discretion. The MMI fund does not have adequate capital reserves. For this reason, and pursuant to the National Affordable Housing Act, distributive shares have not been declared since November 1990. The CMHI Fund has consistently had excess revenues and these are distributed annually. The GI and SRI Funds are not required to be self-sustaining, and are supported in part by congressional appropriation (\$1.5 billion in fiscal year 1992).¹⁸

Income and Expenditures

The primary sources of fiscal year 1992 FHA revenues were premiums earned on insurance-in-force (61 percent) and interest earned on investments with the U.S. Treasury (21 percent). (See Table 4-4.) In fiscal year 1992, FHA losses (overall net deficiency of revenues

over expenses) were \$6.8 billion, compared to \$2.5 billion in fiscal year 1991. The increase was due in large part to a material adjustment to the loss reserve for the multifamily insurance-in-force. During fiscal year 1992, FHA's risk analysis of the multifamily portfolio showed that 18.4 percent of the loans would rank as bad and 23.6 percent as poor--a total of 42 percent in those two categories. Only 7.5 percent could be considered an excellent risk, while 26.3 percent were average and 24.1 percent were good.

FHA's portfolio value is affected by issues within and beyond its control. In a weak economy, the funds take assignment of or foreclose on more single family and multifamily properties whose mortgagors do not meet their mortgage payments. While these properties will ultimately be sold, they represent short-term drains on the funds, and require FHA to incur carrying costs, and will probably be sold at a loss. The recent reduced interest rates nationwide have meant private sector mortgages are more affordable. Thus, although single family insurance in force has increased steadily over the past five years, FHA's average monthly market share of single family insurance has declined steadily since the beginning of the decade.¹⁹

Table 4-4
Composition of FHA Income Fiscal Years 1988-92
(in millions)

Type of Income	1988	1989	1990	1991	1992
Premium Income	\$1,876	\$ 923	\$1,459	\$1,596	\$1,585
Interest Income	722	653	795	837	827
Other Income	67	104	172	131	178
Total Income	\$2,665	\$1,680	\$2,426	\$2,564	\$2,590
Cong Appropriation	163	238	350	7,640	1,482

Note: Congressional appropriations are received into the FHA fund in accord with legislation governing select Multifamily Programs. HUD 1992 *Consolidated Financial Report*, pp. 18 and 21.

FHA Multifamily Insurance comprised three percent of the market share of these loans closed in fiscal year 1992. While it was four percent in fiscal year 1991, it was more than 30 percent in the early 1980s. The drop in market share occurred because of the shift in HUD subsidy emphasis to the existing supply of rental housing, as well as a tightening in the IRS code provisions pertaining to deductions on rental housing, and the availability of state and local tax-exempt financing programs. Between fiscal years 1991 and 1992, the market share of new manufactured homes was down eight percentage points (from 20 to 12 percent). This was due to changes in the secondary market position for manufactured housing.

Non-Insurance Programs Operated Within the Office of Housing

The HUD Office of Housing has programs that extend beyond its FHA insurance programs. Among these are:

- **Housing Counseling.** HUD approves agencies for housing counseling services, advice, and assistance to homebuyers, homeowners and renters under HUD, Department of Veterans Affairs, and conventional mortgage programs. Counseling covers budgeting, money management, and buying and maintaining a home. HUD awarded \$6.3 million for 330 housing counseling grants in fiscal year 1991.
- **Elderly and Disabled Housing Programs.** The National Affordable Housing Act of 1990 authorized a new Section 202 program that provides capital advances to private nonprofit organizations to construct or rehabilitate housing for the elderly. The Act also authorized the section 811 program that provides capital advances for private nonprofit organizations to construct, rehabilitate or acquire housing for the disabled. The first funds were awarded in fiscal year 1992.
- **HOPE 2.** Competitively awarded grants to assist in developing homeownership programs for low-income families and individuals through the use of multifamily rental properties. Six properties, containing 1,351 units, were converted to resident ownership in fiscal year 1991.
- **Interstate Land Sales Registration.** HUD administers the Interstate Land Sales Full Disclosure Act, which requires full disclosure (about such things as ownership, title, planned roads) and prohibits fraudulent practices by land developers and promoters.
- **Rent Supplements (Section 101) and subsidies (Section 8).** HUD pays rent supplements on behalf of eligible tenants to certain private owners of multifamily housing FHA insures and to owners of some projects financed under a state or local program of loans, loan insurance, or tax abatement. Payments make up the difference between 30 percent of the tenant's adjusted income and the fair market rent determined by HUD.

The Office of Housing's staff are not assigned along insurance or non-insurance lines of work, though some may specialize in one area or another. Rather, they often handle a mix of programs, especially as they move into supervisory or managerial positions.

Operations and Staffing in FHA

The Office of Housing and FHA programs accounted for about one-half of the department's approximately 13,000 on-board staff at the end of 1993. A recent assessment of Housing-FHA workload projects a need for 6,450 FTE in 1994; as of November 30, 1993, there

were 5,150 FTE available, leaving an indicated shortfall of about 1,300 staff.²⁰ This was a status-quo assessment, based on current work technology and processing methods.

FHA's asset management policies require that lenders foreclose on most single-family properties, but do permit some borrowers to enter the assignment program. For these properties (whose borrowers are deemed to be behind on payments due to circumstances beyond their control), lenders do not need to foreclose on a property and thus eject borrowers. They can collect their money from the appropriate FHA insurance fund and turn over the mortgage note to HUD (thus placing it in the assignment program), with the delinquent borrower still occupying the property. HUD then must attempt to develop a workout plan or foreclose and evict the individual before disposing of it. In a multifamily property, assignment is automatic and the workout is more complicated. Examples of some aggregate workload increases appear in Tables 4-5 and 4-6.

Table 4-5
Examples of FHA Workload Changes (most SF)

	1992 Actual	1993 Estimate	1994 Estimate
Current mortgage assignments	3,342	5,000	5,000
Assigned mortgages on hand, end of year	98,044	112,845	131,240
Property sales during year	70,152	81,610	69,505

Table 4-6
Examples of FHA Multifamily Workload Increases
Highlights of Defaulted Mortgages' Assignments and Cumulative Assignments

	1992 Act		1993 Est		1994 Est	
	# Prop	# Units	# Prop	# Units	# Prop	# Units
Defaulted Mortgage Assignments during year	197	36,317	240	43,677	181	32,501
Assigned Mortgage year end	2,232	321,675	2,425	357,167	2,570	383,955

The increases in assignments and properties to dispose of have come amid a freeze in hiring. This freeze and the general inability to move staff to new locations (within or between offices) means FHA cannot determine the appropriate number of staff and mix of skills needed and put the right mix in place. This inflexibility and decline in staff occurs even though FHA transfers to HUD (from its insurance funds) the cost of staff salaries and benefits.

Work has been contracted out, but this did not guarantee HUD would save money. For example, an in-depth study by HUD's Region VI found the cost for HUD to process a 223(f) project was \$15,275, compared to \$33,171 using delegated processing. The cost for HUD to process a 221(d) project is \$22,585 compared to \$38,598 for delegated processing. HUD would save \$17,896 per case for 223(f) and \$16,013 for 221(d) cases.²¹

HUD field staff with whom NAPA staff met can document very well the juxtaposition of workload increases and staff decreases. For example, the Los Angeles office's multifamily development load increased from 176 projects in fiscal year 1991 to 385 in fiscal year 1993; staffing dropped from 32 to 28. In fiscal year 1991, single family housing development handled 12,500 cases in assignment and 9,100 case endorsements. By 1993 there were 23,600 cases in assignment and 20,000 case endorsements. Concurrently, staff dropped from 24 to 13.²²

What Others Think of FHA's Resource Levels

When NAPA sent its request for comments to interest groups around the nation, its staff were struck by the detailed level of the responses about the level of HUD's resources, in terms of staff numbers and expertise. The following comments came from organizations that interact with FHA:

- HUD personnel should be sufficiently trained to perform their job duties. . . . It is imperative that these managers achieve professional standards in the areas of education, experience, integrity and fiscal stability...Given the hiring freeze instituted for HUD and other federal agencies, it makes sense now more than ever to hire private contractors [when HUD-trained staff are not available].
- HUD is seriously understaffed to carry out its programs efficiently and cost-effectively. . . . Particularly in the current low-interest-rate environment when many mortgagors are interested in refinancing and many more new projects are feasible, HUD staffing is inadequate to meet the needs and demands for the department's programs in a timely manner.
- The key problems with FHA's multifamily programs are a lack of sufficient, qualified review staff in the field offices and the pervasive attitude developed over the past decade that risks are to be entirely avoided. Processing of multifamily housing required significant expertise and the willingness to balance reasonable risks against the benefit of producing decent, affordable housing. Early staff retirements and buyouts will exacerbate the problems.

- [Current] HUD staff, both career and political, are very willing to work with [our organization's] staff at the national level...We have consistently had this relationship with career staff; however, in the previous administration, the relationship with political staff was often contentious...Field staff should meet regularly with key private sector representatives to get input about HUD operations and a better understanding of area market conditions. Field offices should have trained technical experts who can provide program advice and guidance on a prompt and uniform basis.
- . . . In the multifamily area specifically [there is] a need for HUD to shift to proactive asset management: solving problems before they happen rather than always reacting to disasters.
- HUD programs have continued to change over the past several years, including several new and exciting housing/services combination programs. Unfortunately, HUD staff at the field level are not always aware or programmatically versed to offer prospective applicants guidance or assistance during the funding state. HUD staff should be trained or at least aware of program requirements and goals for all NOFAs published.
- HUD is already understaffed and inadequately funded and any additional cuts will further compromise HUD's ... effects on the very neighborhoods it serves.
- Federal funding constraints have forced a drastic reduction in HUD staff over the years. However, ... these cuts have resulted in no true savings due to their negative impact on program administration and have likely increased costs (e.g., lack of adequate staff to conduct project inspections and approve workout agreements has contributed to the large number of HUD defaults).

FHA's programs have been the subject of numerous audits and evaluations by Price Waterhouse, the HUD Office of Inspector General (OIG) and the General Accounting Office (GAO), among others. Among the material weaknesses Price Waterhouse identified, and with which the OIG concurred, are:

- HUD must address FHA resource shortages. Constraints on staffing resources prevent HUD from placing more resources on monitoring functions, from properly managing troubled assets and from quickly implementing new automated systems for FHA. If HUD cannot hire more staff with the requisite experience, then it must consider restructuring FHA's operations to free up existing staff resources for redeployment to essential program, credit and financial management functions.

- HUD needs to improve FHA's automated systems. Some of FHA's systems either do not provide needed management information or do not provide reliable information. The lack of modern systems tools makes monitoring less productive and staff usage less efficient. An initial investment in resources and staff is needed to improve or replace FHA's systems, and eventually improve staff efficiency.
- FHA needs to resolve defaulted loans. In both the single- and multifamily programs, over the past few years there has been a significant increase in the number of defaulted loans assigned to FHA. Many staff resources are required to service and manage these loans. To the extent these asset management functions use more and more staff, or cause existing staff resources to be used inefficiently, resources are diverted from other important areas.²³

For each of these material weaknesses, Price Waterhouse was clear that the problems related to the way FHA's resources have been apportioned. However, FHA cannot make autonomous decisions about work to be done, the number of staff needed or where the work (and staff) should be assigned. FHA must work with only the number of positions the Office of Management and Budget recommends and Congress approves for FHA work.²⁴

What Could FHA Do Better If It Were Market-Driven?

FHA has the challenges of operating in a rapidly changing real estate finance environment but lacks the flexibility to respond quickly to market fluctuations or changes in consumer preferences. Unlike private sector mortgage lending, FHA's programs are designed to strike a balance among social and financial goals to help more risky borrowers obtain mortgage financing. As such, FHA's portfolio is inherently more risky than those of private sector insurers; Congress created only two of its funds to be self-sustaining.

As recent losses in the multifamily portfolio emphasize, FHA would not be self-sustaining as a stand-alone entity. However, it is not clear that all of the recent multifamily losses would have occurred if FHA were operating as a government corporation. For example, the multifamily coinsurance losses incurred in the 1980s were in large part because the defaulting lenders effectively transferred their share of the risk together with the mortgaging pool servicing rights of GNMA, which was indemnified against loss by FHA. HUD staff also assert that field offices disapproved underwriting of a number of the projects (especially in Texas and Florida, which were very overbuilt), only to have these decisions overridden by political appointees in headquarters. A business would not make such unprofitable decisions. Senior managers would be immediately fired if they overruled appropriately conservative financial decisions and thus caused a firm to incur such substantial losses; political appointees generally have short tenures and are rarely held accountable to the American public.

Senior managers of most federal organizations can present a list of improvements they could make "if only they were not hampered" by federal management statutes or requirements, many of them overseen by central management agencies. For most managers, such a discussion is a speculative exercise, because their functions could never operate outside of federal administrative requirements. Given FHA's corporate status, there is an awareness that programs could function differently. Among the changes an autonomous FHA might make would be to:

- Determine the most effective work methods, where work could most effectively be performed, and the mix and number of staff needed to perform the work.
- Make decisions on what to contract out and how to monitor it based on the best place to do the work rather than base contracting decisions on how to compensate for staffing shortages or hiring freezes.
- Maintain a consistent recruiting effort and regularly train staff to perform their current work and prepare for changing work technology.
- Develop and sustain an executive development program to ensure competent leadership in the future.
- Foreclose on properties efficiently, because it could assign legal and housing staff according to workload and each state's legal system's needs.
- Efficiently sell properties through the property disposition program. Since HUD must advertise these properties to organizations that serve the homeless or other affordable housing groups several times before they are available to private sector buyers, the properties sit on the market at least several weeks longer. In addition, some HUD staff believe commercial buyers know they may be able to offer less because no one else wants them. If it is considered a national value to make some available for homeless people or the programs that serve them, FHA could be an active participant in this endeavor. However, such policy would not need to govern the entire disposition program.
- Develop information systems and management practices that relate to the work done, rather than having to coordinate data or systems to the broader HUD mission or timetables.

HUD'S Role in Broader Housing Policy Issues

HUD's role in housing goes well beyond its insurance programs. However, NAPA staff interviews with users of HUD services (lenders, state and local officials, nonprofits) indicated HUD of the last decade has been a fairly uninfluential player in housing and community development. In part, this is because some of the early housing goals, such as those relating to construction standards, have been achieved. Another point of view is that HUD has retreated

from an activist role in many arenas. Clearly, the current secretary and leadership team want to make HUD more central to housing and community development in the nation's communities.

FHA's public purpose as a credit enhancer is valuable. Just as important is its role in asset management, an area that has been troubled in recent years. Much of the multifamily housing portfolio is older and aging and HUD has a dual role as an insurer and a provider of housing subsidies for poor people. The housing subsidy provider wants rents to stay low so the subsidies (paid by the federal government) are lower. Conversely, the lender/insurer says landlords should be able to charge rent at a level to maintain fully the building, which could argue for higher subsidies. This dichotomy of purposes, perhaps exacerbated by the political environment of growing national debt, means rents are more likely to be set without enough in reserve to make major repairs. The property deteriorates and its mortgage note eventually becomes part of HUD's assigned inventory.

FHA is itself thinking of ways to enhance its role through more flexible operations. An internal September 1993 paper discussed establishing FHA as a "quasi-independent public enterprise structure."²⁵ Reasons given for the proposal include the inflexibilities in the federal management systems, the need to respond to FHA's growing role in asset servicing and management (the result of mortgage defaults and foreclosures), and the inability (presumably because of statutory restraints as a part of a federal department) of FHA to price its products in the most effective manner. The HUD-prepared paper discusses the fact that FHA is "a business with a public purpose," and needs to overhaul its product line.

Those who argue for a stronger role for FHA in the insurance and finance industry would say that a more autonomous FHA would not only be able to adjust its work and organization to its industry, but could also be a more powerful and effective contender in the broad field of housing policy and finance.

In recent congressional testimony, former FHA Commissioner Austin Fitts analyzed the multifamily environment and some of the tables she used illustrate well HUD's (not FHA's) relatively minor role. (See Tables 4-7 and 4-8.)

The Federal Corporate Structure

Beginning in 1904, with the purchase of the Panama Railroad Company, the federal government used the device of government corporations wholly or partly government-owned to conduct operations of an industrial or commercial nature. In most instances, they were operations conducted for a public purpose and supported in whole or in major part from revenues derived from the sale of their goods or services. The corporate device was used extensively during World War I and again during the New Deal years. One of its major purposes was to free organizations of a commercial nature of the controls and restraints customarily associated with the annual appropriations process.²⁶

President Franklin D. Roosevelt described the Tennessee Valley Authority (TVA) as "a corporation clothed with the power of government but possessed of the flexibility and initiative of private enterprise." To enable TVA to respond to market demand and fulfill its contractual

obligations, the TVA Act authorized the corporation to retain and utilize that part of its revenues that in the opinion of the TVA Board was necessary in conducting its business of generating and distributing electrical energy. The amounts thus made available were not to be subject to appropriation by Congress or annual limitations.

When it enacted the Government Corporation Control Act of 1945 (31 USC 9101, et seq), Congress clearly recognized that revenue-producing government enterprises could not function effectively if they were subject to the budgetary restraints and other controls applied to tax-supported programs not subject to market discipline. The Act emphasized "the need for flexibility . . . in order that the corporation may properly carry on its activities as authorized by law." It further emphasized that the business-type budget specified in the Act should not be used to impose annual limits on the use of corporate funds to meet operating expenses and "shall not be construed as preventing government corporations from carrying out and financing their activities as authorized by existing law." In testifying in support of the Government Corporation Control Act, then-Budget Director Harold Smith noted that budgetary control "improperly used...can seriously impair the corporation's usefulness."

**Table 4-7
Who Sets U.S. Housing Strategy²⁷**

	<u>Administrator</u>	<u>Congressional Committees</u>
Ownership supports	Treasury secretary	Finance; Ways and Means
Rental programs	HUD secretary OMB director	Banking Appropriations (HUD/VA and independent agencies)
Credit programs	Private boards Treasury secretary HUD secretary Federal Reserve chair FDIC chair FHFB chair	Banking, Energy and Commerce

**Table 4-8
Major Federal Housing Supports²⁸**

	<u>Purpose</u>	<u>Administered by:</u>
1. Credit Programs		
Deposit insurance to S&Ls and banks	Channel short-term deposits to long term mortgage	FDIC (independent agency)
Federal Home Loan Bank Bank Advances	Channel funds from the capital markets	FHLB Boards; FHFB
FHA/VA/GNMA	Provide nationwide credit for residential mortgages	HUD, VA
FNMA/FHLMC	Provide low-cost credit for residential housing	Corporate boards**
FmHA*	Provides residential credit in rural areas	Department of Agriculture
2. Tax Expenditures		
Home mortgage interest deduction*	Encourage home ownership	IRS
Various SF home deductions*	Encourage home ownership	IRS
Tax-exempt mortgage bonds	Encourage home ownership	IRS
3. Subsidies		
Section 8 Vouchers/Certificates	Direct assistance to renters	HUD
Section 202	Production of housing for the elderly/disabled	HUD
Public housing assistance	Assisted public housing authorities	HUD
CDBG	Encourage community development	HUD
4. Regulatory Programs		
FHFH Affordable Housing Program	Assisted low/moderate income projects	FHFB
RTC Affordable Housing Program	Assisted low/moderate income projects	RTC
Community Reinvestment Act	Encourage local lending	Federal Reserve Board
Home Mortgage Disclosure Act (HMDA)	Discourage discriminatory lending	Federal Reserve Board

* "Entitlement" in the sense that availability is not limited by appropriation, but is open to all who qualify.

** Regulatory oversight with the Treasury and HUD.

President Harry Truman prescribed the criteria for use of the corporate form of organization in his 1948 budget message. Use of such organization was restricted to programs that:

- Are predominantly of a business nature;
- Are revenue producing and potentially self-sustaining; and
- Involve a large number of business-type transactions with the public.

The Government Corporation Control Act is not a general incorporation law. No single federal statute deals with the powers, organizational structure and legal status of government corporations. While this has some disadvantages, in that Congress has created some corporations with ineffective governance structures, it also ensures a great deal of flexibility. A government corporation has the mission and structure that Congress assigns it by law.

Congress can structure the corporation to be primarily self-sustaining but may decide that some of its activities should be funded in whole or in part from appropriated funds rather than subsidized by the corporation's users. For example, the federal government permits programs such as the Library of Congress' services for the blind to use the U.S. mails free, and it reimburses the U.S. Postal Service for these costs. TVA supports its power operations from rates customers pay, but Congress appropriates funds for its economic development activities.

Conclusions and Recommendations: Considerations for a Corporate FHA Structure

FHA is only one of multiple players in the broad housing finance environment and must work within the complexities and uncertainties of that industry. Unlike heads of other large real estate or financial institutions, the FHA commissioner cannot make relatively autonomous decisions. There is no ability to flexibly adjust the FHA product to changing market conditions, such as fluctuating interest rates, and the commissioner must operate within the budgeting and administrative parameters of a traditional federal agency. Ultimately, decisions about housing insurance policy or resources are as vulnerable to change as anything else in the executive branch budget. Those who argue for a stronger role for FHA in the insurance and finance industry would say that a more autonomous FHA would not only be able to adjust its work and organization to its industry, but could also be a more powerful and effective contender in the broad field of housing policy and finance.

Since its 1965 absorption within HUD, FHA has had a number talented commissioners. The current assistant secretary for housing brings a broad mix of experience and sound financial and management skills to the position. However, few assistant secretaries have stayed long enough to provide needed continuity and operational stability. Despite the effectiveness of individual FHA commissioners, successful businesses do not change their executives as often as political appointees enter and leave assistant secretary positions. And how much better is public-guaranteed mortgage insurance because the head of FHA also has a range of other programs to operate? No private lender or insurer could afford such operational inflexibility and uncertainty.

It is the staff of an organization that brings life to its programs, and FHA's staff have been largely isolated from the real estate and financial world for many years. Most are dedicated public servants, and they would be the first to agree that FHA needs a strong program

to build its human capacity. Developing staff resources is a long-term project that is now impossible to plan, much less fund, because of the constraints of federal appropriations. FHA needs to be able to develop current staff better and recruit the sophisticated personnel mix needed for the current and future housing finance and insurance industry.

FHA meets the technical criteria for structure as a government corporation. Just because it meets a set of criteria does not mean Congress should change FHA's basic structure. However, having examined the current structure, the Academy panel believes there are clear leadership and operating benefits that would accrue to FHA if it were operated within a corporate structure.

Looking at Structural Alternatives

Within the broad rubric of government corporation alternatives is a range of options. Past National Academy reports have stated the belief that some structures are better designed than others to provide effective management and appropriate accountability to the president and Congress. In evaluating the following alternative structures for FHA, the panel has carefully taken into account the FHA's role and mission, lessons learned from the experiences of other government corporations, and certain basic organization principles enumerated by such bodies as the first Hoover Commission.

Alternative structures²⁹ considered for FHA were:

- A corporation within HUD with an executive director appointed by the secretary, on the model of the Pension Benefit Guaranty Corporation (PBGC);
- A corporation within HUD with an administrator appointed by the president, with Senate confirmation, for a statutory term of office, on the model of the Saint Lawrence Seaway Development Corporation;
- An autonomous corporation under the policy direction of the HUD secretary with respect to matters of national mortgage insurance policy; and
- An autonomous corporation with either a full- or part-time board of directors or a single administrator. Models for this type of organization are TVA, U.S. Postal Service, Resolution Trust Corporation, and U.S. Enrichment Corporation.

The general principle endorsed by the first Hoover Commission and others is that programs contributing to a definable major purpose of the federal government should be placed within or under the policy direction of the head of the executive department that as nearly as possible shares the same major purposes. Consistent with this principle, certain corporations have been incorporated as integral units within executive departments. In its extensive 1981 report, an Academy panel emphasized that the corporation should report directly to the secretary

and the secretary should be concerned exclusively with major policy issues and coordination matters, not details of internal corporate management and administration.³⁰

Avoiding Corporate Pitfalls

Incorporation within an executive department proved to have serious disadvantages in the case of such corporations as the GNMA and PBGC. Self-financing government enterprises are an alien presence when incorporated in organizations comprised almost exclusively of traditional tax-supported and legislatively appropriated programs. Headquarters staff rarely are conversant with or understand the special requirements of corporations and are reluctant to grant exceptions from rules and regulations generally applicable within the department.

A 1993 GAO report on GNMA³¹ documented problems resulting from the imposition of departmental controls on a government corporation. According to GAO, GNMA's managers have little flexibility in determining how to use their resources. Staff ceilings imposed by HUD have kept GNMA from monitoring the financial health of the financial institutions that market mortgages and securities guaranteed by GNMA. Due to the departmental ceilings on personnel imposed by OMB, HUD has not been able to increase GNMA's staff without reducing staff elsewhere in HUD, even though GNMA reimburses HUD for its personnel and other costs and operates at a profit to the federal government.

A significant difference between a corporation and traditional agencies is that powers are vested in the corporation, not the head of the department. Except for PBGC, there is no precedent for establishing a government corporation within an executive department with the secretary responsible for its administration. In the case of the PBGC, the executive director appointed by the secretary of labor is not the responsible head of the agency and may exercise only those powers that have been delegated by the secretary. To expect a cabinet secretary to also act as the chief executive of a major corporation is unrealistic. The ambiguous status of the PBGC executive director, who ranks below assistant secretaries in the Department of Labor, has resulted in considerable turnover in the position and loss of management continuity. The executive director has been in a weak position to resist pressure to make the corporation comply with departmental procedures and regulations even when they are manifestly inappropriate.

The Academy panel believes there are clear leadership and operating benefits that would accrue to FHA if it were structured as a government corporation. However, if it is to remain incorporated within an executive department, the corporate charter must give FHA true managerial flexibility. When this is not the case, there are serious disadvantages, as with GNMA and the PBGC. Business operations cannot work in the same regulatory environment or use the same management systems that traditional tax-supported and legislatively appropriated programs employ.

The Academy panel recommends that Congress:

- ◆ **Transfer the corporate powers of FHA from the secretary to the corporation, permitting it to function with greater operational autonomy within HUD.**

The primary objective of a more autonomous FHA is not to solve financing problems, though they may be lessened, but to enable FHA to be an effective vehicle to address the nation's affordable housing needs. Though the exact charter of the new FHA would be determined by Congress and the president, the panel envisions that legislation creating it would stress that FHA is needed to move capital into housing by making possible mortgage credit that would otherwise be unavailable.

Congress should emphasize FHA's mission would not compete with private sector insurers. Rather, FHA would permit access to homeownership and affordable rental units that would not be available without the federal commitment. Congressional oversight of FHA should reinforce its public purpose and ensure that it is fully accountable to achieve its mission and safeguard the U.S. treasury. Perhaps the single biggest advantage is that FHA will be able to spend money in the short term to reduce significantly the government's long-term insurance liability.

With the flexibility for administrative and product decisions, FHA can be a much stronger player, able to take a more holistic approach in working with the nation's communities. FHA will be better able to partner with others in the housing industry and the nation's communities to share costs and risks, thus creating more affordable housing opportunities. FHA offers a valuable commodity. A government corporation would have the ability to operate it that way.

FHA has not been self-sustaining and will not likely become so under a corporate structure. FHA will use insurance premium income to fund staffing, overhead, direct operating expenses, and some program activities. Even in a corporate structure there are inherent risks in providing insurance to the families and businesses FHA serves; if there were not, the private sector would provide it. In addition, the nation will still have to pay a big bill for subsidized multifamily housing, which often works in tandem with FHA insurance programs. Federal subsidy funding would come, as it does today, from a mix of rent supplements or section 8 funds, which are part of public and Indian housing (PIH) and the non-FHA components of HUD's Office of Housing. The panel does not anticipate that these would be organizationally housed within FHA, although HUD would need to ensure close coordination so that there would be continuing subsidy support of FHA programs to house lower income individuals.

As Congress and the president examine how to streamline HUD's hodge-podge of statutes (discussed in Chapter Three), the panel suggests they also consider making the statutes that govern FHA's programs as flexible as possible so that it can develop and adapt over time the most effective tools of modern housing finance and the staff to administer them.

Corporate Governance

A board of directors was once considered to be the hallmark of a government corporation, due to the fact that state incorporation laws require a board of directors elected by shareholders. Since wholly-owned government corporations have no shareholders, other Academy panels have previously challenged the need for a board of directors.³²

Experience has demonstrated that boards are best suited for deliberative functions such as rulemaking, adjudication, and regulation, but rarely do well when called upon to manage

complex operations. As the first Hoover Commission stated, "Administration by a plural executive is universally regarded as inefficient."³³ Among the deficiencies of plural executives are:

- Dispersed authority, with impaired accountability to the president and Congress.
- Inability to act promptly.
- Susceptibility to competition and disagreement among board members, which may result in least-common-denominator decisions, stalemates, or unclear decisions that send mixed signals to clients.
- Inability or unwillingness to delegate administration to a chief executive officer or a chairperson. Given the difficulty of maintaining a clear dividing line between policy and administration, boards have a tendency to micromanage day-to-day operations to the detriment of policy and administration.³⁴

These deficiencies are often compounded when boards include agency heads who have other responsibilities that limit their participation and may or may not be compatible with their board duties. The authority of principals is generally delegated to subordinate officials. When directors are selected to represent special interests such as consumers, labor, geographic regions, etc., there is certain to be a conflict between their fiduciary responsibilities as corporate directors and their obligations to the groups they presumably represent.

Congress replaced the board of directors of the Reconstruction Finance Corporation (RFC) with a single administrator because the board arrangement had resulted in "diffusion of responsibility." The Senate noted that the existence of a five-member board of directors had made it possible "for individual members to avoid, obscure, or dilute their responsibilities by passing the buck from one to another."³⁵ When Congress enacted legislation in 1991 reorganizing the Resolution Trust Corporation (RTC) under a single chief executive officer appointed by the president, one Senator pointed out that "two heads may be better than one, but certainly not when they are on the same body."³⁶

Despite criticism of the board structure, most government corporations continue to have boards of directors. The exceptions are the Resolution Trust Corporation, GNMA, and St. Lawrence Seaway Development Corporation. Boards differ as to the number and qualifications of directors, authority to appoint the chief executive officer and other powers. There may also be a considerable gap between a board's statutory role and what it actually does or does not do. Full-time boards have been effective only when the chair is recognized as "first among equals" and executive responsibilities are not divided among directors.

Three basic options were considered for an FHA that again has its corporate powers vested in the corporation:

- Corporate powers vested in a part-time board of directors appointed by the president with Senate confirmation. The board would be responsible for

general management of the corporation including appointment of subordinate officers. (U.S. Enrichment Corporation.)

- Corporate powers vested in a single administrator, appointed by the president with Senate confirmation but with a provision made for an advisory board. (St. Lawrence Seaway Development Corporation.)
- Management of the corporation vested in a single administrator, who serves a statutory term, and is appointed by the president with Senate confirmation exclusively on the basis of qualification, without regard to political affiliation.

The Academy panel has concluded that vesting management in a single administrator--without a formal advisory board--would provide the structure best calculated to clarify lines of authority, provide unity and continuity of leadership, and ensure accountability and responsiveness to Congress, the president, and the public.

The Academy panel recommends that Congress:

- ◆ **Vest management of FHA in a single administrator appointed by the president, with Senate confirmation, for a six-year term of office. The administrator should be compensated at the same level as the chief executive officers of comparable government corporations.**

Regardless of the governance structure, returning the corporate powers to FHA will probably not greatly alter one of the basic features of the United States' pluralistic system of government--giving an individual or organization the clout to change a specific program or policy by having access to individual members of Congress or their staffs. The panel would only note that it is very appropriate for interest groups to have input at the policy and regulatory level, but not at the level of individual decisions. FHA needs to be able to make decisions because they represent the best way to implement public policy, not because of one individual's or a group's influence.

Intricate Planning Needed

Some aspects of designing the "new FHA" will be much easier than if Congress were creating a new corporation or crafting a corporation from an organization that formerly worked solely as an appropriated-funds agency. FHA is already a distinct financial entity with publicly audited financial statements. Congress and the administration thus have business information to use as a base for their analysis. Some aspects will be harder, because of intricate financial relations that have been developed between FHA and substantive programs.

As the charter for the new FHA is drafted, HUD will need to do a careful analysis of financial parameters, financial implications and outputs over time and how FHA will relate to the rest of HUD. Such an analysis will also need to encompass how FHA operations will intersect with other HUD programs in the communities.

While the Academy panel did not specifically examine GNMA and its structure, the work of GAO and others reinforces the need for this entity also to be afforded the full benefits of its corporate charter. The panel suggests that HUD and Congress modernize GNMA's charter as it redrafts FHA's, giving GNMA the same corporate flexibilities that the panel recommends for FHA.

Some individuals have suggested that GNMA and FHA should be housed in one corporation, and the panel has considered this in a general sense. This is but one example of the complex factors that will arise as Congress considers revesting the corporate powers in FHA. GNMA deals only in mortgage-backed securities, while FHA, working in concert with many other organizations, has a much more diverse role in public housing policy. Whether they should remain separate or be merged corporate entities is a major issue that will require very focused study before action could be taken.

The Academy panel recommends that Congress:

- ◆ **Commission an analysis of the advantages and disadvantages of a possible merger of FHA and GNMA.**

Even after broad financial and structural decisions are made, it will take time and hard work to make administrative arrangements to simultaneously separate and integrate HUD, FHA, and--possibly--GNMA. It would be wise to have a standing systems coordination committee to ensure that, for example, data the three organizations need are only collected once and are in a format all can use. This will save time and money for the government and those who would have to supply the information.

LOOKING TO THE FUTURE

HUD as now structured faces the continual challenge of functioning and having management systems to support a sound commercial business (its FHA and GNMA components) versus having the flexibility to function as a partner with diverse colleagues pursuing a broad mix of community purposes. This organizational dichotomy has inherent conflicts. The panel's proposal that FHA become a more autonomous organization within HUD will permit the secretary to organize the rest of the department to deliver its programs in ways that serves the nation's communities more effectively.

Endnotes: Chapter Four

1. Secretary's Organization Order No. 1, February 24, 1966.
2. HUD 1980 Transition Book, *Part II: Organization of the Department*, p. II-5.
3. HUD Transition Briefing Book I: General Information, December 1992, pp. 67-68. [TR-03]
4. The Office of Federal Housing Enterprise Oversight was established under the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (Title XIII of P.L. 102-550). Though created as a regulatory body with an arms-length relationship with HUD, it is organizationally located within HUD and its staffing level, 45 in fiscal year 1994, count against HUD's FTE ceiling.
5. Department of Housing and Urban Development, *Reinventing HUD*, March 1, 1994.
6. The office in Puerto Rico was excluded from this analysis.
7. Draft Report: Reinventing HUD Task Force Report Creating a Streamlined, Mission-Oriented Organization, September 10, 1993.
8. Charles Warren, *National Implications of a Negotiated Approach to Federalism*, published by the National Academy of Public Administration as a result of research funded by the Kettering Foundation, July 8, 1981.
9. FHA Annual Report for Calendar Year 1948. The Government Corporation Control Act is codified at 31 USC 9101, et seq.
10. The definition and discussion in this paragraph are from Thomas Stanton's book, *A State of Risk: Will Government-Sponsored Enterprises be the Next Financial Crisis?*, Harper Business, 1991, pp. 2 and 16-17.
11. Thomas Stanton discusses FICO and REF Corp in "Federal Supervision of Safety and Soundness of Government-Sponsored Enterprises," which appears in *The Administrative Law Journal*, of the American University, Volume 5, Summer 1991, pp. 413-414. FICO and REF Corp are unlike the other six GSEs, in that they are bail-out corporations for the federal funds insuring thrift institution deposits. Unlike traditional enterprises that exist to extend commercial loans and expect to be repaid, these two institutions were intended to fail commercially. FICO and REF Corp are limited to purchasing FSLIC and RTC securities that are expected to have no market value. OMB, over the objections of the Congressional Budget Office, has described the funding corporations as "privately owned" so that they do not increase the reported federal deficit in the short term. Because these two enterprises are subject to virtually complete governmental control in conducting their operations, and because GAO and CBO analyses indicate they are governmental rather than privately-owned entities, FICO and REF Corp are excluded from most discussions of GSEs.
12. Much of the discussion of government corporations and the rationale behind the suggestions for FHA are drawn from previous work of Academy Fellows Alan Dean and Harold Seidman, including the December 1993 report, *Reinventing the Bonneville Power Administration*, pp. 19-20. Another general source is an Academy panel report, *Report on Government Corporations*, August 1981.
13. Alan Dean and Harold Seidman, *Considerations in Establishing the Patent and Trademark Office as a Government Corporation*, National Academy of Public Administration, February 1989, pp. 4-6.
14. P.L 101-576, Section 306, 9106 (a)(1), 104 Stat. 2847.

15. Housing/FHA Reorganization Briefing to Deputy Secretary Duvernay, January 6, 1994, p. 2.
16. HUD, *Fiscal Year 1992 Consolidated Financial Report*, p. 14.
17. Information on the four insurance funds, including the 1992 loss and risk data, is drawn from HUD's Fiscal Year 1992 Consolidated Financial Report, pp. 14-15.
18. 1992 financial report, p. 21.
19. Information on market share for single and multi family insurance is from the fiscal year 1992 financial report, pp. 18-19.
20. Nicolas Retsinas, assistant secretary for housing and FHA commissioner, 11/30/93 memo, p. 5.
21. June 7, 1993 study by staff of Region VI's Management and Budget Division of the Office of Administration, p 7.
22. Los Angeles Office Housing Development Division, Workload and Staffing Briefing Paper, August 1993.
23. HUD Office of Inspector General, FHA Audit of Fiscal Year 1992 Financial Statements, OIG's *Executive Summary and OIG Report*, 4/30/93, pp. vi-vii.
24. HUD Office of Inspector General, *FHA Audit of Fiscal Year 1992 Financial Statements*, 4/30/93, p. 3 of the Price Waterhouse audit report.
25. Nicolas Retsinas, "Establishment of FHA as a Quasi-Independent Public Enterprise Structure," September 24, 1993.
26. Frederick C. Mosher, *The GAO: The Quest for Accountability in Government*, Westview Press, 1979, Boulder, CO, p. 84.
27. C. Austin Fitts, "Multifamily Housing Finance: Where We Are, Where we Want to Be and How We Get There," in hearings before the Subcommittee on Housing and Urban Affairs of the Senate Committee on Banking, Housing and Urban Affairs, October 29, 1991, Senate Hearing 102-442, p. 221.
28. Fitts, p. 223.
29. Much of the rest of this section is derived *Reinventing the Bonneville Power Administration*, a National Academy of Public Administration Report authored by a project team consisting of Alan Dean and Harold Seidman, December 1993, pp. 21-23.
30. National Academy of Public Administration, *Report on Government Corporations*, Washington, D.C., 1981, pp 31 and 47.
31. U.S. General Accounting Office, *Government National Mortgage Association: Greater Staffing Flexibility Needed to Improve Management*, (GAO/RCED-93-100), June 1993, pp. 9-10.
32. National Academy of Public Administration, *Report on Government Corporations*, Washington, D.C., 1983, Volume 1, p.32.
33. Commission on Organization of the Executive Branch, *Regulatory Commissions*, March, 1949.

34. National Academy of Public Administration paper on proposals to make the Social Security Administration independent from HHS, as set forth in a September 13, 1989 NAPA report requested by the Chairman of the Senate Committee on Aging.
35. Senate Report No. 76, 82nd Congress.
36. *Congressional Record*, November 7, 1991, S.16259.

CHAPTER FIVE

MANAGEMENT SYSTEMS AND INITIATIVES

By any measure, HUD's management systems fail to meet needs. They fail the secretary in fulfilling his stewardship responsibilities to the American public. They fail to provide credible data for the Congress on which to evaluate programs. And, not least, they fail HUD's staff on the front lines who need to be well trained, highly motivated, and adequately served by computers and systems if they are to do their jobs well. Studies by HUD management, the HUD inspector general, the General Accounting Office (GAO), congressional committees, and outside consultants have all documented significant problems with HUD management systems. Secretary Cisneros has recognized the inadequacies and has placed a high priority on fixing the systems.

In this chapter, the Academy panel discusses the need for improvements in HUD's financial management, information management and systems integration, staff estimation and allocation, and human resource management. The panel describes and assesses ongoing initiatives, and presents its recommendations for improvements in those initiatives and other improvements that should be undertaken.

Overall, the panel believes that HUD's current initiatives are sound and move in the right directions. Many of the problems in HUD's management systems cannot, however, be solved easily or quickly. Sustained efforts and concerted management attention—over a number of years and probably beyond the tenure of many of HUD's top leadership—is essential. Moreover, long-term commitment and support by HUD leadership, as well as the Office of Management and Budget (OMB), and by the Congress are critical to the process.

FINANCIAL MANAGEMENT

HUD's history of serious inadequacies in financial management extends back for more than a decade. Following the disclosure of scandals in 1989, and as the result of new legislation aimed at increasing financial accountability throughout the federal government, HUD leaders made new efforts to improve the department's financial management systems, and some progress was made. Although the department's current leadership has placed increasing emphasis on solving long-standing financial management problems, much work remains and progress depends greatly on gains in solving other systemic problems in resource management and data systems integration. In addition, HUD must ensure that as the department undergoes reorganization, and other management and program initiatives are implemented, the implications for adequate financial management are appropriately considered.

Background Information

As an executive department, HUD's financial management is carried out within the statutory framework embodied in Title 31 of the United States Code. In recent years, this law

was amended by the Federal Managers' Integrity Act of 1982 (FMFIA) and the Chief Financial Officers Act of 1990 (CFO Act), which more specifically fix management responsibility in the area of financial management and require reporting on management's financial stewardship.¹

The financial dimensions of HUD's program and management responsibility are extensive.² Grant, subsidy, and loan programs that fall under HUD's responsibility accounted for more than \$21 billion of expense in fiscal year 1992. HUD also has numerous long-term contractual and administrative commitments under these programs. On September 30, 1992:

- Contractual commitments totaled about \$147 billion, approximately \$95 billion of which was unfunded, and administrative commitments totaled about \$24 billion, about \$14 billion of which was unfunded (the bulk of unfunded amounts related to the Section 8 rental assistance programs);
- HUD-held foreclosed properties and mortgage notes and loans were valued (net of provisions for losses) at about \$16 billion,
- Unamortized FHA mortgage insurance in force amounted to about \$379 billion; and
- The value of securities guaranteed by GNMA date totaled about \$422 billion.

HUD's principal programs and activities are essentially financial (loans, grants, subsidies, insurance, and guarantees), thus financial management considerations are of great importance to most program management activities. Financial management is, therefore, best considered in the larger context of HUD management generally.

A 1984 GAO study of HUD management discussed and offered recommendations on how to address HUD's long-standing and complex management problems.³ GAO found that HUD needed greater organizational stability, more emphasis on and strengthened accountability for general management functions, and greater continuity in its top management team. The study found further that HUD's financial management systems had not kept pace with department needs and recommended improvements, including establishing the position of chief financial officer with clear responsibility and accountability to set financial policy and provide a central focus for development of improved financial management systems. HUD did not establish such a position.

During the next 10 years, reports by the secretary, HUD's IG, independent auditors of HUD's financial statements, GAO, and numerous consultants, as well as hearings and reports by congressional committees held in the wake of the HUD scandals disclosed in 1989, showed that despite improvements in a few areas financial management remained seriously and systemically deficient. Before the scandals were disclosed, audits and reviews by the IG and others identified numerous material weaknesses in internal controls and inadequacies in financial systems that needed correction. HUD management identified only a few weaknesses, and apparently did not recognize the deep-seated and pervasive nature of the underlying management problems. In December 1988, for instance, Secretary Pierce reported to both the President and

the Congress that with certain exceptions, all targeted for correction by 1990, the objectives of FMFIA had been achieved.⁴

One year later, however. Secretary Kemp reported a much different picture—overall noncompliance with FMFIA with respect to both internal controls and financial management systems, and a myriad of serious material weaknesses that had existed for many years and had led to fraud, waste, abuse, and mismanagement of numerous HUD programs.⁵ Major steps were taken to better identify and define problems and to develop and implement plans for their correction. They included:

- A task force effort to define problems in program financial management and develop action plans was undertaken;
- Management control program reforms were designed to systematically evaluate compliance with FMFIA and produce plans for corrective action where needed;
- A strategy for restructuring financial management systems was initiated; and
- The position of chief financial officer was created to provide leadership in departmental financial management and the position of "comptroller" was established as a focal point for financial management in each of the financially important headquarters offices (Housing/FHA, PIH, CPD, GNMA, and Administration) and in each of the regional offices.⁶

Despite these steps, overall noncompliance with FMFIA continued to be reported in subsequent years. In December 1993, Secretary Cisneros reported that HUD was plagued with poor management controls, that the potential for fraud, waste, abuse, and mismanagement was substantial and that, despite the reforms implemented in the wake of the 1989 scandals, the department could not provide reasonable assurance that FMFIA's objectives for management controls and financial systems were being met fully.⁷

The secretary's report also declared that the HUD management control program was itself a material weakness. Material weaknesses reported included problems that had not been corrected, although they were first identified several years earlier, and problems for which the estimated completion date for corrective action had been extended several times. In some cases, HUD managers had reported that material weaknesses had been corrected, but corrective action was later found to have been insufficient or ineffective by subsequent reviews to independently verify the correction of the reported weakness. The oldest problem relates to the Section 8 payment process, first identified in 1983 with completion of corrective action planned for 1985; the current estimated date for completion of that corrective action is January 1997.⁸

Under the CFO Act, HUD was designated as a pilot agency to prepare financial statements encompassing all activities of the department for fiscal years 1991 and 1992 and have them independently audited. Although the distinct corporate financial entities within HUD, FHA mortgage insurance funds and GNMA, are subject to permanent requirements for financial statements and audits, their financial activities are consolidated within HUD financial statements.

According to HUD officials, the first step in meeting the requirement for financial statement preparation and audit was to identify and correct basic accounting and recordkeeping problems so that an audit could be performed. Thus, preliminary work by outside auditors was aimed at determining what must be corrected before financial statements could be even be audited. The audits have been useful in identifying major financial management issues, and the relationship of other general management functions, such as automated systems development and integration and staff resource management, to the integrity and effectiveness of financial and program management in the department. These audits have the benefit of and are consistent with the work done by the IG's office and others. The findings are presented in the context of the totality of the department's financial operations, and are, therefore, very useful in understanding the importance of and interrelationships among general management functions.⁹ Because of inadequacies in HUD's internal control and financial management systems, however, the auditors have not been able express an opinion on whether the consolidated financial statements fairly presented HUD's financial condition and the financial results of its operations.

Underlying Systemic Issues

The IG's office, on the basis of its work and that of others, has offered its list of the 10 most significant obstacles to the effective and efficient delivery of HUD programs, i.e., HUD's top 10 management problems¹⁰ (see Chapter One for the listing). Most of the 10 are related directly to financial management and show relationships between financial management and other general management functions. The three systemic issues, as most recently defined by the IG, are:

- **Data Systems.** HUD's automated data systems preclude effective control and management of its wide range of large, complex programs. HUD currently has many separate, poorly integrated, often duplicative, and generally unreliable data systems.
- **Resource Management.** HUD does not have sufficient staff to carry out its operations as currently structured. In addition, it does not have a plan for either acquiring additional competent staff or restructuring operations based on the resources it has. Of special concern is the increased risk of fraud and abuse as HUD shifts much of its program delivery functions to others, without the level of monitoring needed to prevent, detect, or correct problems.
- **Control Environment.** HUD does not have an effective management control program to raise control consciousness and provide for evaluation, improvement, and reporting on internal control and financial management systems. Since 1983, the inception of its management control program, HUD has been unable to report compliance with the Federal Managers' Financial Integrity Act of 1982.

In his December 1993 report to the President and the Congress on HUD compliance with FMFIA, Secretary Cisneros declared the department's Management Control Program a material weakness, and acknowledged as "high risk areas" the departmental financial management systems generally, the Section 8 financial systems specifically, and departmental resource

management. In the past several years, problems associated with the department's data systems, including financial management systems, and with deficits in staff resources or skills have been identified as underlying causative or contributing factors to many of the material weaknesses in internal controls reported by the IG, Price Waterhouse (in its independent audits of HUD financial statements), and the GAO.

The interdependence of the three systemic management problems reported by the IG is well-illustrated by the description of a "material weakness" reported by Price Waterhouse in connection with its audit of HUD's consolidated financial statements for fiscal year 1992. The auditing firm reported that interim steps were required to improve control over Section 8 payments to project owners, and stated:

As discussed in other sections of this report, HUD's most critical control deficiencies are in its Section 8 program, which provides rental assistance to low and very low income families to obtain acceptable housing. In addition to insufficient information and automated systems, and weak recipient monitoring, HUD also has a serious internal control weakness with respect to its review of payments made directly by HUD to project owners (i.e., project-based subsidies).

Section 8 funds paid directly to project owners amounted to about \$5 billion during 1992. Project owners bill HUD monthly based on contractual terms, occupancy, and tenant eligibility and send back-up information to HUD supporting the bill. This information should be reviewed, at least analytically, to ensure there are no obvious errors in light of information HUD already possesses with respect to the project owners. In addition, any amounts not fully supported by the documents submitted should receive prompt follow-up action, including, if appropriate, payment recoupment.

However, we noted the following control deficiencies in this area:

- Review of bills and back-up received from project owners does not always occur
- The review procedures that are performed are untimely and ineffective
- Even when undocumented costs are identified, they are not consistently followed-up to recoup potential improper payments
- Project owners do not have to pay interest expense or penalties even when overpayments are substantiated

While we found these same deficiencies during 1991, we believe it important to note that these conditions, in some respects, declined [got worse] during 1992. Most specifically, as related to the \$5 billion in payments to private project owners, we found that fewer payment reviews were performed in 1992, and in some HUD field offices the reviews had been discontinued. In these instances,

while HUD assures itself that it has contracts with the project owners to provide subsidy payments, it has little assurance that amounts paid are proper.

We also found that payments lacking sufficient supporting documentation identified during 1991 had not been followed-up to evaluate propriety, and thus no effort was made to recoup potentially improper payments. At one field office we visited these insufficiently documented costs approximated \$160 million, yet no follow-up occurred.

The principal reasons given by field management for the reduced level of payment reviews during 1992 were that temporary clerical staff which used to assist in the reviews were not retained, and full time staff were diverted to other priorities, including assisting in implementing the CFS/TRACS [Control File Subsystem/Tenant Rental Assistance Certification System] system. Although personnel were diverted to other priorities, or as related to the temporary personnel, not retained, control over Section 8 disbursements remained a serious concern of the field personnel interviewed during our 1992 field testing.

Current HUD Financial Management Initiatives

Secretary Cisneros has made improving the management of HUD and its programs a high priority. The following initiatives have been undertaken as a part of this process:

- The CFO has become the focal point for improvements in financial management. The functions of the CFO office, however, are still evolving and the position of CFO has been occupied by three incumbents in its first three years.
- Earlier initiatives to reform the management control program and develop a strategy for restructuring financial management systems have been reevaluated and redirected.
 - The approach to and assignment of responsibility for systems integration has been revised under the direction of a high-level Systems Integration Steering Committee chaired by the deputy secretary.¹
 - An effort has been undertaken to "reinvent" the management control program using an approach thought to be more effective, particularly in an organization with significant resource constraints, while at the same time placing increased emphasis on "front-end risk assessments (FERA)" for new or significantly revised programs and processes. The development of the new approach to the management control program is

¹ In March 1994, the Systems Integration Steering Committee was replaced by the newly established Management Committee, chaired also by the deputy secretary.

a joint undertaking of the CFO's Office, the Office of Housing, and the Office of the IG. The effort is planned for completion by September 30, 1994.

In addition, in keeping with a recommendation of the National Performance Review, the IG is responding to the desire for more "up-front" assistance to departmental management in improving financial management, including FERAs and the development of the revised management control program. Assistance from the IG is intended in part to compensate for a shortage of staff with the expertise and skills needed to identify and treat internal control needs and deficits in program and administrative offices. HUD has relied heavily on contractor assistance to conduct internal control and financial systems reviews, define and implement corrective actions, and verify that corrective actions are completed and effective.

An effort is also being undertaken to define the role and functions of the comptroller positions in major headquarters offices and their relationship to the CFO function. The original premise for these positions was that financial management is largely integral to program and administrative management and that the persons who occupy these positions would work to make program and administrative management effective in a financial management sense. The premise was never fully developed within the department or translated into defined roles and responsibilities for the positions. Instead, the top managers in each of the offices were left to define, or leave undefined, the roles of the positions, with mixed results. The role of the comptroller in regional offices has been somewhat better defined, but with the elimination of regional offices as part of the current reorganization, comptrollership in the field organization will need redefinition.

In addition to the initiatives directed specifically toward improving financial management, several other major initiatives within HUD have important implications for financial management in that they can significantly impact internal control systems and the general control environment:

- Major organizational restructuring will affect program and administrative reporting relationships as well as some business processes;
- Restructuring or re-engineering program and business processes will affect program management functions, relationships, and attendant controls;
- Program consolidation or restructuring will affect management control needs;
- Consolidation of selected administrative and program functions into fewer locations will also affect administrative and program relationships and the overall control environment; and
- Potential workforce downsizing as a result of budget and personnel constraints may exacerbate shortages in needed staff skills (particularly with planned reliance on attrition to effect staff reduction) and increase reliance on contractors and program participants to carry out program processes—both of which have important implications for internal controls.

Conclusions and Recommendations for Financial Management

The Academy panel believes that HUD has made a good start at addressing the department's financial management problems. But raising the quality of HUD financial management to an acceptable level cannot be accomplished easily or quickly. It will be a complex, long-term effort that cannot be carried out independent of other general management functions or program management. Systems and processes that adequately support program and administrative management are critical for effective financial management. Such systems and processes must include appropriate controls, must be adequately staffed so that they are managed and carried out by staff that appreciate the financial implications of their activities and have the expertise and skills to carry out their duties effectively. In short, financial management must become an integral and pervasive element in the day-to-day management of HUD's programs and activities.

Accomplishing this goal will take years of consistent and concerted leadership and effort. HUD must clearly recognize this reality as it moves forward with its initiatives, including those directed specifically to financial management.

The Academy panel recommends that HUD:

- ◆ **Define expeditiously the functions and responsibilities of the comptroller positions in the respective headquarters offices; their relationships with program and administrative management and with the chief financial officer's office; and the numbers and skills of staff needed to carry out effectively the defined comptroller functions in these offices.** To be effective in helping ensure that sound financial management becomes integral to program and administrative management, their role must be well understood and supported by both the leadership and managers of the offices they serve and by top departmental management. In any major office that does not have such a position or where the position is not retained, a determination should be made as to where responsibility for the defined functions will rest.
- ◆ **Complete promptly the effort to "reinvent" the Management Control Program.** If the effort is successful in developing a model approach that is effective for achieving appropriate internal controls, move quickly to incorporate the approach into a comprehensive departmental program. Should the effort not be successful in developing such a model, alternative approaches for meeting the objectives of the program should be explored. Implementation of a new approach should be accompanied by appropriate and effective training.
- ◆ **Ensure that as financial systems development and integration efforts proceed, information concerning the findings of prior relevant internal control reviews and other studies is systematically gathered, made available to, and considered by those responsible for the systems**

effort, and that appropriate consideration is given to internal controls that should be included in the systems design.

- ◆ Include, as part of the increased emphasis on front-end risk assessments for new or revised program and administrative processes, risk assessments of the changes in processes and organizational relationships inherent in the several major initiatives being undertaken as part of HUD's reinvention and streamlining activities.
- ◆ Assess the resource requirements (staff, training, and contractor assistance) to carry out these recommendations in a timely manner, and move to secure and employ such resources to the extent practicable consistent with other resource planning and management priorities.

Special Case: Budget Estimates for Section 8 Contract Renewals

For some time, HUD has been unable to properly account and budget for Section 8 housing assistance program funds. This shortcoming is the result of serious deficiencies in controls and procedures in Section 8 accounting and budgeting systems, and in the input and maintenance of contract and accounting data in information systems. These deficiencies were first reported in 1983 as a material weakness under FMFIA and were documented in numerous internal and external studies—many during the period of increased attention to HUD financial management that followed the disclosures of scandals in 1989. Attention was heightened with the discovery and congressional reaction to a shortfall of about \$1.2 billion in the contract renewal budget estimates submitted to the Congress for fiscal year 1992.¹¹

Concern over the adequacy of the estimates prompted a review by a team composed of staff from OMB, the IG, and HUD program offices (a "joint SWAT team"), and a subsequent review by the IG.¹² Both studies made recommendations for improving short- and long-term budget estimates.

Section 8 accounting and budgeting problems will be resolved only when the integrated systems now being developed—the Office of Housing (Housing) Tenant Rental Assistance Certification System (TRACS) for project-based assistance and the Office of Public and Indian Housing (PIH) Section 8 System for tenant-based assistance—are completed and implemented successfully.¹³ As currently conceived, these systems should provide the basis for solving many of the financial management problems of Section 8 programs, including those that relate to estimating budget requirements in both the short- and long-term (particularly in the case of the latter, subject to uncertainties in national and local economic conditions).

The underlying problem with budget estimating was that the HUD data systems that support management of the Section 8 programs did not, either individually or collectively, contain complete or reliable information on contract terms and expiration dates and the related numbers of assisted housing units. These data, extracted with great effort during the past two years from original contract files maintained in HUD field offices and reconciled with data in

other HUD systems, will be contained in the Control File Subsystem (CFS). Data related to tenant-based assistance are now substantially complete and reliable and were used to produce the budget estimates for fiscal year 1995. For project-based assistance, substantially complete and reliable CFS data should be available in formulating budget estimates for fiscal year 1996. This information, together with information on rent income and tenant rental contributions—all of which will be in the planned integrated systems—should provide an adequate basis for projecting budgetary requirements.

In the interim, HUD has obtained needed data from various systems and from field offices, subjected them to verification procedures, and developed methodology to use them for developing estimates of budget requirements. The IG independently reviewed the methodology used for developing estimates for fiscal year 1993 and made recommendations for improvements in the methodology and verification procedures. PIH subjected its tenant-based contract renewal estimates for fiscal years 1993, 1994, and 1995 to a PIH comptroller's office audit to ensure that the estimates were reasonably accurate; this effort also resulted in improvements in methodology. The Office of Housing did not employ separate audit procedures to independently check the adequacy of its estimates for the project-based contract renewals, which were much less in amount at this time than estimates for tenant-based contract renewals.

NAPA project staff reviewed the methodology used to obtain and verify data and to formulate estimates of budget requirements for contract renewals for fiscal years 1993 and 1994 and the initial estimates for 1995. Staff also compared estimates for fiscal years 1991 through 1993 with the budget authority actually used in those years. Based on this review and information obtained through discussions with responsible HUD officials, NAPA staff concluded that HUD estimates of budget requirements for Section 8 contract renewals have improved and are now more reliable. Producing reliable estimates should become easier as CFS data for project-based assistance becomes more complete and are reconciled with data from other systems, and as improved data on rental income and tenant contributions are brought into HUD systems and become available for use in formulating estimates. It should be noted, however, that even with reliable data, estimates must rely on assumptions of economic conditions and other factors, which may prove faulty.

When completed, the TRACS and the Section 8 System should be able to forecast budget requirements using all of the needed contract and tenant related data that will be in the systems. Prior to completion, interim budget forecasting techniques will be used as better and more complete data become available within the systems. The current estimated completion date for Housing TRACS is January 1997; as planned, the budget forecasting capability will be available somewhat sooner. The estimated completion date for phase I of the PIH Section 8 System, which should include the capability to formulate fiscal year 1996 budget estimates, is October 1994; phase II, which is to include a more complete budget formulation capability, is scheduled for completion in October 1995.

Conclusions for Section 8 Contract Renewal Budget Estimates

With substantial attention and effort, HUD has developed interim solutions to the problem of formulating reliable estimates of budget requirements for Section 8 contract renewals. These

interim solutions can continue to be used and improved until estimates can be produced by the Housing TRACS and the PIH Section 8 System now under development. When those systems are in place, the interim solutions should no longer be needed.

SYSTEMS INTEGRATION AND INFORMATION MANAGEMENT

As HUD works to provide better services to its varied users and rebuild its credibility with Congress and the general public, there is one resource that supports all these efforts. HUD must effectively manage information through the design and use of systems that are capable, accessible and interoperable (frequently referred to as systems integration).

Identified Problems

HUD's IG, GAO and outside consultants have reported that HUD's data systems are poorly integrated, often duplicative, and support field offices poorly, do not meet management needs and are in general not credible. These studies have shown that the deficiencies are primarily the result of a lack of proper management and planning. The IG's March 1993 report to Congress¹⁴ stated:

Systems development has been administered from a parochial sponsor/user perspective, meaning that the systems were created for specific users along organizational rather than program lines. This allowed program and accounting staffs to build separate and often duplicative systems, rather than a more efficient integrated system serving everyone's needs. In addition, staffing constraints and lack of a sense of ownership result in poor support by the largely autonomous regional and field offices for these Headquarters-directed systems. Moreover, the systems often did not satisfy management needs, did not provide adequate control, and lacked credibility.

The IG's top 10 management problems facing HUD includes "data systems" as one of three systemic problems. A common thread running through the other nine problems was the lack of effective information systems to facilitate programmatic and management processes. This problem was reiterated during NAPA staff interviews with key congressional and OMB staff. Interviewees repeatedly stated that HUD needed information systems that were more credible and integrated, that integrated information must be accessible to stakeholders outside of HUD, that HUD needed to establish key priorities, and that HUD must commit to a long-term agenda to fix these problems.

In a December 1993 report to the president and Congress,¹⁵ Secretary Cisneros acknowledged seven current high-risk areas (six previously and one newly identified) and 19 current material weaknesses (10 previous and nine new). Again, a common thread was the lack of adequate, accurate information provided by systems that should make the information accessible in a timely and integrated manner.

Investment in Infrastructure

HUD has invested in its information infrastructure, particularly with respect to personal computer (PC) work stations, electronic mail (E-Mail), and networks. Since 1986, the number of PCs and local networks has grown by tenfold. HUD is one of the few federal agencies in which nearly all professional staff are connected via electronic messaging capability. This allows for timely distribution of management information via electronic media on a daily basis.

Funding decisions for fiscal years 1993 and 1994, however, caused funds planned for investment in equipment infrastructure to be diverted to cover other administrative funding shortfalls (approximately \$30 million in fiscal year 1993 and \$15 million in fiscal year 1994). If this trend continues, the HUD equipment infrastructure, which has been a strength, may become a liability and future systems will not be effectively implemented due to equipment limitations, particularly in the field. Currently, HUD has no mechanism that identifies the appropriate level of equipment infrastructure investment and ensures that funding for equipment infrastructure is protected, once it is budgeted, from being siphoned off to fund other administrative priorities.

The Situation as of 1993

HUD has more than 250 information systems in place—approximately 40 percent of which are financial or mixed program and financial systems.¹⁶ HUD management recognizes that this is too many information systems to be managed effectively, and recognizes the need to reduce the number of systems through consolidating, eliminating redundancies, and constructing and implementing integrated systems that will provide the maximum return on HUD's investment of time and money.

Funds for systems integration are drawn from a working capital fund.¹⁷ HUD's budget for systems integration is approximately \$20 million a year for the next five years (\$100 million). This is augmented in fiscal year 1994 by \$10 million, which comes from FHA mortgage insurance funds. The level of funding for other systems development in fiscal year 1994 is about \$15 million.

Interviews with key personnel in HUD's Office of Information Policies and Systems (IPS) indicate that nearly 80 percent of all HUD systems work is accomplished by outside contractors. The director of IPS believes this level of contractor work is more than HUD systems staff can effectively monitor, and that the high level of dependency on contractors, if continued, will cause basic skills of HUD personnel to erode.

In the wake of the HUD scandals, HUD engaged an outside consultant to develop a financial systems integration plan.¹⁸ The completed plan, approved by HUD in 1991, envisioned developing one financial system, with nine subsystems defined along functional lines, to replace some 70 existing financial systems. The plan was aggressive in scope and strategy. It assumed that integration of systems would force integration of processes and organizations. This aspect of the plan failed due to organizational resistance to the integrated design. In one major systems integration effort—the CFS/TRACS to support Section 8 subsidy programs—it

soon became obvious that the two major program organizations involved (Housing and PIH) had a diverging sense of system requirements, and that neither organization had a sense of ownership of the system.

Although systems integration was to be the responsibility of the CFO function, the IG believed this office (in 1991) lacked the necessary authority, expertise, and resources to carry out its responsibilities effectively. The IG also noted that HUD management was not involving its resident program expertise in the systems development process to ensure the new systems would meet program needs.

This was the situation when Secretary Cisneros and his principal staff arrived.

Current HUD Initiatives

To respond to the long-standing management deficiencies in the area of data systems, the secretary early in his administration established a Systems Integration Steering Committee (SISC) to oversee the budget, resources, project plans, and progress for all HUD systems integration initiatives. Chaired by the deputy secretary, the SISC began meeting bi-weekly on April 28, 1993. SISC membership included program assistant secretaries, the assistant secretaries for administration and policy development and research, the IG, and the CFO. The CFO chaired a systems integration working group, formed to support the SISC's work, with the director of IPS as a *de facto* co-chair. The CFO was assigned responsibility for systems integration policy standards.

The first order of business for the SISC was to resolve the issue of organizational accountability and responsibility for systems integration projects, particularly those associated with CFS/TRACS. The SISC quickly assessed the situation and made a decision to split CFS/TRACS into two systems to clarify responsibility and accountability of the two primary program assistant secretaries involved. The SISC decided to revise the Financial Systems Integration Plan to reflect this focus. HUD completed the revised plan in September 1993¹⁹ and presented it to OMB and congressional staff. The plan serves as the basis for the detailed work plans established for each integration project the SISC approved. These work plans include resource requirements, project tasks, and a transition plan necessary to implement the new systems. All systems integration plans must conform to the departmental systems integration policy standards.

Priorities Taking Shape

The SISC, supported by the CFO and the IPS director, has set priorities for systems integration within HUD. The department initially established four priorities: (1) FHA/Housing TRACS for Section 8 subsidies; (2) PIH Section 8 system (S8S); (3) administrative accounting system; and (4) FHA mortgage insurance system (FHA/MIS). HUD believes choosing these priorities--and choosing only four--will permit the department to focus human and financial resources on key areas without fear of distributing resources too widely to be focused and effective.

HUD has adopted a proprietary financial software package called Federal Financial System (FFS) as the building block for its financial systems. HUD views FFS also as a possible cornerstone for program information systems.

In December 1993, HUD issued *Financial System Integration Standards* to provide departmentwide standards for systems development projects. The standards are intended to ensure integration of multiple development projects. HUD is also establishing a *Standard Account Coding Structure* that will be used in all new systems it develops.

The department has developed a *Systems Design Methodology* (SDM) using information engineering principles and Computer-Aided Software Engineering (CASE) tools. This comprehensive methodology includes a process for developing Information Strategic Plans (ISPs) that will become the basis for systems development and integration as well as the framework for the systems architecture needed to ensure that systems integration is carried out effectively. Although HUD has begun to focus on the need to complete ISPs, it has only completed them in the OIG and PIH. Recent decisions have resulted in funding for additional ISPs and work has begun in CPD, the CFO organization, and the multifamily area in housing. HUD has also stated that it intends to begin developing an ISP for GNMA.

To date, however, HUD has no formal departmental policy that assigns program assistant secretaries responsibilities for supporting the development and maintenance of an enterprise architecture to provide the standards, conventions, procedures, and interface definitions needed to facilitate the integration of information, information technology, and information systems in HUD. In addition, the secretary and deputy secretary do not appear to hold program assistant secretaries accountable for supporting the development and maintenance of an enterprise architecture.

Field Office Role in Information Management

Because field staff believe that most headquarters-developed systems have little value to them, there is very little field "buy-in" to HUD information systems, and field personnel have very little motivation to control the quality of the information they enter into these systems. Field staff receive very little help from these systems in discharging their responsibilities for program management, and are often frustrated because they cannot easily obtain access to the information they generate. Thus, they sometimes invent their own systems to meet their needs.

Beginning in the early 1980s, headquarters initiated a program to provide category A and B field offices with automation technology assistants (ATA) to provide technical troubleshooting and support to program staff in areas such as hardware and software installation and maintenance as well as support of headquarters systems implemented in the field. Staff and managers say this has been a very effective management initiative. As of January 1994, there were 46 ATAs in the field offices, generally one for each category A and B office. In four cities where the field offices are particularly large or serve complex constituencies, there are two ATAs.

Although ATAs have been provided to most category A and B field offices, there are questions as to whether there are enough ATAs and indications are that the allocation of ATAs

and other automated technology support staff among regional and field offices is not equitable. The number and complexity of information systems has grown, the number of computers that must be maintained has risen from fewer than 1,000 to 10,000 since 1986, and the networks for which ATAs are responsible have grown from less than 10 to approximately 125. As this growth occurred, the number of ATAs in the field has remained nearly constant.

Conclusions and Recommendations for Systems Integration and Information Management

The Academy panel believes that HUD has moved aggressively to address its many problems in information management and systems integration, shown most clearly through the creation and work of the Systems Integration Steering Committee. To build on these early successes, HUD needs to consider issues focusing on:

- Leadership and oversight;
- Strategic business and information planning;
- Information management;
- Field involvement in systems;
- Enterprise architecture;
- Investment in information infrastructure; and
- Better institutional capacity.

Leadership and Oversight

While the SISC is off to an excellent start, it would be natural for participation of key leaders to wane over time. If the deputy secretary loses enthusiasm for leading the effort or program assistant secretaries do not regularly participate, SISC will quickly lose its value. This outcome cannot be allowed to happen.

SISC deals only with systems integration issues, but HUD's top management needs to provide continued leadership and oversight in the broader area of information management and systems design, development, integration, implementation and operation. The leadership should encompass all aspects of systems integration whether for financial or programmatic management, and include all aspects of information management. Leadership and oversight should be focused at the deputy secretary level through a committee mechanism such as the Management Committee recently announced as part of HUD's new Strategic Performance System.²⁰

The Academy panel recommends that HUD:

- ◆ **Charter the newly constituted Management Committee to assume all functions of the SISC and the IRM Planning Board, and oversight of all aspects of systems (including nonfinancial systems) and information management; ensure that HUD's field offices are represented during**

committee consideration of information systems; and create a small, permanent staff reporting to the deputy secretary to support information management functions.

Strategic Business and Information Planning

Quality planning for information systems and systems integration is impossible without strong business planning by program organizations. Without quality information strategic planning, it is impossible to build effective systems that can be integrated and to construct an enterprise architecture that will facilitate systems integration. Although HUD's Systems Development Methodology²¹ requires the development of business strategies on which to base the ISPs, very little evidence exists that effective business planning occurred until recent months or that a policy delineating a departmental process for strategic and program planning was in place.

Information accountability must be part of the programs that generate and use it. A strategic performance system implementation plan is essential, and it must provide guidance for program assistant secretaries as to what constitutes adequate documentation of business strategies. This guidance will help them become fully accountable for the adequacy and quality of information, which should in turn be made much more accessible to the operating elements in HUD as well as to the public. Within each program assistant secretary's organization, structural elements should be established to implement information management functions. This resulting new structure for managing information as a resource can succeed only if it is managed at the highest levels of the organization.

The Academy panel recommends that HUD:

- ◆ **Prepare guidance for the Strategic Performance System that informs program assistant secretaries concerning what constitutes adequate documentation of business strategies; mandates the development of Information Strategic Plans by all program assistant secretaries and major administrative support organizations; and establishes deadlines for each ISP.**

Information Management

HUD must begin to manage information as a resource. Although lack of information adequacy and integrity is arguably the single biggest contributor to HUD's lack of credibility with Congress and other external organizations, HUD has yet to understand the importance of managing information as a resource. HUD also does not make the important distinction between managing systems development, implementation, and operation and managing information used by the systems.

No organization within HUD has overall responsibility for overseeing the integrity and adequacy of information within the department. Moreover, the resources in program organizations assigned to this task are inadequate. HUD line and staff organizations are confused as to who is accountable for the poor quality of information in existing systems. Frequently program organizations blame IPS—the office that has had primary responsibility for the technical aspects of developing and operating systems—for information breakdowns that give rise to criticism of HUD. This criticism is not appropriate. Program organizations, not IPS, must be held accountable for the quality and adequacy of all information of programmatic origin.

The Academy panel recommends that HUD:

- ◆ **Hold program assistant secretaries accountable for the adequacy and quality of information via the Management Committee.**

Financial management is an important element of information management, and HUD's decision to adopt FFS for financial system purposes appears to be an excellent decision that should result in standardizing and leveraging approaches to financial management in departmental accounting systems and in program information systems. Excessive reliance on FFS to meet the needs of program information systems might, however, cause problems.

Because FFS was developed as a financial system (and not a program information system), substantial modifications may be required if it is to function effectively as a program management system. Other agencies that have tried to modify FFS to fit nonfinancial management needs have had disappointing results because of the design complexity and proprietary nature of the software. Thus, HUD should act cautiously in attempting to modify FFS for purposes other than financial management. Interfaces to other software should be employed, when appropriate, so that HUD does not rely solely on FFS for management of program information.

Field Involvement in Systems

Field organizations have not been adequately involved in the process of conceptualization, design, and implementation of information systems; nor have they been represented on the SISC. As a result, many HUD systems are of little use to the field, and field staff view gathering the information necessary to "feed" these systems as an unnecessary drain on scarce resources. HUD undoubtedly requires information for headquarters operations that may not be needed for field operations. Nevertheless, the balance is so tipped in favor of information perceived to be required by headquarters or needed to meet externally imposed requirements, that little emphasis is given to meeting HUD's information needs for managing programs at the point where they affect HUD customers, in the field.

The field should be made a much more significant player in the design, development, implementation, and operation of HUD systems. Furthermore, HUD should consider assigning field personnel leadership roles in developing pilot systems.

Providing category A and B field offices with automation technology assistants has been an extraordinarily effective management initiative. However, the shortage of ATAs in field offices results in missed opportunities in the areas of analysis, training, development, and proactive prevention of operational problems.

The Academy panel recommends that HUD:

- ◆ **Provide for more field organization involvement in the design, development, implementation and operation of systems better to ensure that future systems are designed to support operations in the field; and**
- ◆ **Conduct an assessment to determine the adequacy of numbers of automation technology assistants in field offices and whether reallocation of resources would alleviate identified shortages.**

Enterprise Architecture

Enterprise architecture is intended to provide the standards, conventions, procedures, and interface definitions needed to facilitate the integration of information, information technology, and information systems for an organization. The IPS director and the CFO appear to have an adequate understanding of the need for an enterprise architecture within HUD,²² although it is troubling that the program assistant secretaries are not fully involved in architecture design and "ownership." In addition, although the methodology is sound, the SDM is written primarily for technical personnel and is too voluminous and detailed for program executives and managers.

Congressional and OMB staff have criticized HUD because its systems do not talk to each other. The primary reason for this is the stovepipe (i.e., singular vertical focus) design of systems without regard to their "sibling systems." The only effective means for dealing with this criticism is to develop an enterprise architecture that establishes rules for integration that permit individual systems to be developed or replaced in a modular manner, and allows for integration with other systems that are being developed in parallel.

The Academy panel recommends that HUD:

- ◆ **Hold the Office of Information Policy and Systems (IPS) responsible for developing and implementing a HUD enterprise architecture that facilitates systems integration; hold program assistant secretaries responsible for supporting architecture development and implementation; and task IPS to develop an executive summary of HUD's systems development methodology.**

Investment in Information Technology Infrastructure

HUD has developed an excellent information technology infrastructure. Not only can management quickly send information to staff throughout the nation, but staff throughout HUD can also quickly share ideas, information, and electronic files. Nevertheless, recent decisions to reallocate funds originally intended for equipment upgrades and new investment put this now high-quality system at risk of degradation over time.

The Academy panel recommends that HUD:

- ◆ **Formulate a strategy for investment in HUD's information technology infrastructure.**

Creating Better Institutional Capacity

The Financial Systems Integration Plan constitutes a good start toward consolidating systems within HUD. It should be expanded to include plans for consolidation of nonfinancial systems. The number of systems that HUD operates should be eventually reduced to a fraction of the more than 250 systems now in operation.

Resources for systems integration appear to be adequate with the exception of the need for more ATAs to implement systems in the field and the need to identify and protect funding for HUD's information technology infrastructure. It is unlikely that additional systems integration funding would be advantageous, because the in-house resources needed to oversee and manage the expenditure do not exist.

HUD needs to promote stability and continuity of leadership, policy, programs, and projects in the systems integration area. The enemy of high-quality systems development is frequent and unsynchronized change. To ensure implementation is orderly and productive, the current and next leadership regime at HUD must accept current strategies and sustain them for a five- to eight-year period.

If information is the key to power, then knowledge is the key to empowerment. The Management Committee should adopt a strategy to increase the level of systems literacy throughout HUD. This effort includes making computer literacy a criteria for hiring new personnel as well as training program personnel and administration staff to be more knowledgeable in the systems area. Additional cross-training should be planned to make systems personnel more knowledgeable about program activities and make program personnel more knowledgeable about systems activities.

It is crucial to reduce HUD's dependency on outside contractors, particularly in the GNMA and IPS organizations. Recent government reports show that contracting out is often not economical. More important, HUD must have its own staff, directly accountable to HUD executives and thus the American public, designing and safeguarding its information systems and the large financial risk inherent in many of HUD's programs. The current level of 80 percent

contractor responsibility for systems work is too high; a level of 50 to 60 percent would probably be better.

Effective systems are those that are continually assessed as to their reliability and usability. HUD needs to review all of its systems to determine which carry the highest risk, what the priority should be for replacement or revision, which systems should be discontinued and, in general, whether existing systems are meeting program needs.

As HUD invests in its information systems and as technology makes electronic communication more accessible, HUD's systems can support its programs and their users even more directly. HUD should be constantly aware of opportunities to employ more electronic commerce, and to take advantage of emerging information technologies to promote better links to the "grass roots" communities. These opportunities include the potential to support electronic town meetings and to provide constituent access to HUD policy guidance via Internet.

STAFF ESTIMATION AND ALLOCATION

HUD does not have a departmental process for systematically assessing staffing needs or for allocating available staff resources in accordance with an ordered set of priorities. Since the early 1980s, staffing levels have been driven primarily by a top-down budget process; there has been no comprehensive assessment of how many staff, with what kinds and levels of skills, are needed in what locations to carry out HUD's program and administrative responsibilities effectively.

Observers within and outside of HUD believe that some offices within HUD lack the staff needed to carry out their assigned responsibilities. Considerable evidence exists that, as HUD and its programs are now structured, HUD does not have sufficient staff resources overall to carry out its responsibilities adequately. In addition, because of staffing shortages, HUD has relied on contractor assistance in instances where considerations of efficiency and economy would favor performance in house.

HUD management recognizes the need to better rationalize its requirements for and allocation of resources. It also recognizes that in the current environment of budget restraint it cannot realistically expect significantly increased staffing levels. Thus, long-term solutions lie in determining better ways to carry out departmental responsibilities. HUD management must move forward vigorously with its plans to develop a resource management program that enables it to deal effectively with its staffing and resource allocation problems.

Background Information

During the 1970s, HUD developed a work-measurement and staff-estimating process for field operations and some headquarters functions that was supported by a staff time-reporting system and linked to management planning systems. These systems were essentially abandoned in the early 1980s; with the emphasis at that time on downsizing the work force, the estimates of staff requirements produced by the systems were not politically acceptable. Despite increases

in the number of HUD programs, their complexity and their financial impact, staff levels in full-time equivalents (FTEs) fell from about 17,000 in 1980 to about 12,000 in 1986. Staffing was increased to about 14,100 by 1992, but fell to about 13,300 in fiscal year 1994. Over the years, most reductions were accomplished through attrition. It is the judgment of HUD managers that this decline has left staffing and skills imbalances of considerable magnitude.

From 1981 to 1985, HUD did not systematically relate staff utilization to program functions. In 1985 a Resource Allocation Guidelines System (RAGS) was put into effect. This system, which is still in place, associates reported staff time utilization (except for legal staff) in the regional and field offices with workload indicators defined by HUD's program offices (Housing, Community Planning and Development, Public and Indian Housing, and Fair Housing and Equal Opportunity). Many of these indicators do not measure work accomplished; rather, RAGS shows staff utilization relative to programs and activities within programs.²³ Regional and field staff utilization information in RAGS is reported by defined work activities through the Employee Time Reporting System (ETRS).²⁴ Workload data associated with the workload indicators is entered into the RAGS either through automated interfaces with other HUD data systems or manually via remote computer terminals in headquarters, regional, or field offices.

RAGS was intended only to produce information for analysis and to aid in making assessments of resource allocation. It provides information on the objects (workload indicators) of actual staff utilization. RAGS does not directly provide information on what should be done or on staff requirements, and HUD has no systematic process for producing such information and relating it to management planning and staff resource planning and allocation. RAGS contains standard unit costs (in terms of staff hours, on either a national or regional basis, as determined by management) for the various workload indicators, and compares actual unit costs with the standards, nationally, by region, and by field office within each region.

Information from RAGS is used by HUD in budget formulation and presentation, showing the breakdown of regional and field staff utilization by program areas and activities within program areas. How RAGS information is used to determine staff needs and allocation varies among program areas. The Office of Housing makes more use of the information than other program areas, both for determining needs and allocating staff. The budget justification materials for Housing field staff utilization, for example, show the level of staff required (based on standard unit costs and projected workload) with downward adjustments to reconcile the level of staff required to the level included in the HUD budget submitted to the Congress.²⁵

Current Situation

Considerable evidence indicates that HUD, as it and its programs and processes are currently structured, does not have the field staff resources needed to effectively carry out its program responsibilities; little evidence exists as to whether staff resources in headquarters are adequate.

Based on a limited review of HUD's management and control of staff resources, the HUD IG summarized the situation in a March 1993 report.²⁶ The IG concluded, based on this review and on many other audits and reviews, that staffing within individual offices was

insufficient to properly carry out the offices' responsibilities, in part because of improper allocation of staff, and that overall the department lacked sufficient staff to carry out its responsibilities. The IG also reported that many program weaknesses identified in audits were caused at least in part by inadequate staffing or lack of training.

The IG reported that there was a genuine concern among program managers about HUD's ability to properly administer its existing workload with current staffing and that the managers complained about being given new programs to administer without any additional staff. The IG report states that, in response to a questionnaire used as part of the review, regional administrators and directors of administration raised the following points:

- Regional staffing levels are too low and the regions are further hampered because they are unable to shift positions between field offices.
- The method used to assess regional and field office staffing needs is poor.
- The system employed to gather information from the regions on their staffing needs is not uniform, and various regions are not solicited for their input.
- There are no work measurement standards.
- The staffing distribution between regions is inequitable.
- Necessary program skills are lacking.
- Staffing dollar limitations affect hiring and ceilings cannot be achieved.
- There is a significant lag between changes in workload and staffing.
- Needed personnel cannot be obtained because of a hiring freeze.

NAPA staff reviews of past studies and audits by the IG, independent auditors, and the GAO, and interviews with many HUD officials, confirm the concerns raised above. Some interviewees believe that if HUD set appropriate work priorities and streamlined its work processes, and if staff possessed or gained through training the skills appropriate to the work, the numbers of staff available might prove to be adequate. Nine of the 11 interest groups that responded to NAPA's invitation to provide comments or views related to the study provided comments on the staff capability of HUD. The views most often expressed were that HUD was understaffed and that staff frequently were not well-trained or were assigned work for which they were not trained.

In recent years, HUD has relied increasingly on outside contractors to carry out functions that would otherwise be carried out by HUD staff.²⁷ In many cases, contractors were used simply because staff were not available or could not be obtained within personnel ceilings and budget constraints, rather than as a result of a decision that contract was the means of choice to accomplish the work at hand.

A June 30, 1993, report on HUD's use of service contractors,²⁸ prepared at the request of OMB, showed a total of 3,455 service contracts under which \$483.5 million was expended during fiscal year 1992. About 94 percent (3,255) of those contracts and about 62 percent (about \$301.4 million) of the expenditures were in support of FHA and other Office of Housing programs. About 21 percent (about \$101.6 million) of the expenditures were for information systems operation, development, and maintenance, and about 8 percent (about \$37.1 million) were for support of GNMA mortgage-backed securities activities.

HUD managers estimated that work performed by service contractors would have required the equivalent of about 5,000 full-time employees—more than one-third of the actual HUD work force. They also estimated that work equivalent to more than 1,100 full-time employees could be carried out more cost effectively with HUD employees than through contract. The managers' estimates were based on their judgment, not on detailed analyses of the work and staffing requirements. (NAPA staff was informed of one case study by a regional office that concluded that one contracted program activity could be accomplished much more cost effectively in-house.²⁹) The secretary's June 30, 1993, report stated that HUD planned to examine contract efforts in greater detail, determining what tasks might be accomplished more cost effectively with federal employees and, if warranted, present through the budget process, a recommendation to convert contract dollars to hiring of in-house personnel. This action has not yet been taken.

During interviews with NAPA staff, HUD headquarters, regional, and field officials often stated that the lack of travel funds in many instances impeded the work of HUD staff, and that work that required travel was often neglected in favor of work of lesser importance that could be accomplished without expending travel funds, or that work that necessitated overnight travel was not performed in favor of work nearer to the duty station.³⁰

In summary, the level of staff resources within HUD has been driven more by external budget constraints than by any careful analysis of what needs to be done, the resources needed to carry out priority work, and whether the work can be accomplished more cost effectively in-house or through contract.

Current HUD Resource Management Initiatives

HUD management recognizes the need to rationalize better its requirements for and allocation of resources. Early in the current administration, Office of Budget staff prepared an analysis of the resource management and allocation situation.³¹ The analysis correctly concluded that the question of how to manage and allocate staff, difficult to answer under the best of circumstances, is made more difficult at HUD because of significant staffing declines during the 1980s and the prospects for further downsizing.

The staff paper stated that, in the short term, HUD would need to take greater operational control over resource allocations so that its most urgent priorities and management problems are addressed and, in the long term, a new approach to resource management and allocation that better serves HUD's strategic requirements is needed. Organizational changes, procedural streamlining, regulatory reforms, changes in how programs are delivered, and policy

and programmatic changes aimed at redirecting the work force toward more highly valued activities must all be considered.

Current HUD initiatives are in the directions outlined in the preceding paragraph, with HUD reinvention efforts being directed to each of the elements listed as needed for the long-term resolution of resource management problems. In other words, HUD recognizes that simply adding more staff is not the answer.

To assist in resolving staffing issues, HUD established a task group under the direction of the assistant secretary for administration. Staff, as well as other types of resources, are within the group's charter. The group worked under the guidance of a Resources Management Steering Committee (RMSC) chaired by the deputy secretary and composed of HUD's principal staff at the assistant secretary level.² The RMSC first met on September 8, 1993, the day after the NPR report that called for streamlining HUD through the elimination of regional offices and a work force reduction of about 1,500 FTE was issued. The NPR mandate, coupled with two Executive Orders, would require reduction of the HUD FTE level to about 11,500 by 1999.³² Faced with this executive direction, the task group and the RMSC focused much of their attention on how to cope with resource management issues in the short term, but continued to consider the underlying problem of the lack of a resource management system that would link determination of needed resources and their allocation to HUD's plans and priorities.

The work group defined HUD's outlook for the short term as continued significant resource reductions that: (1) are beyond HUD's control; (2) do not consider HUD's programmatic responsibilities or HUD's existing business practices; (3) will further reduce staffing below a level necessary to adequately manage programs and control risks; and (4) do not consider new program priorities and secretarial initiatives. It characterized HUD's short-term challenge as "managing the performance deficit" and identified both internal and external limits on its effective management as follows:³³

Internal Limits

HUD's previous approach to resource management was fragmented, analytically flawed, and did not facilitate effective and efficient resource utilization;

Departmental plans do not specify resource requirements;

Performance measures are not used to determine how effectively resources are used;

Resource cost data lack credibility, which limits HUD's ability to price out key functions and practices;

Resource allocation decisions do not consider material and financial risks; and

² In March 1994, the Resources Management Steering Committee was replaced by the newly established Management Committee, chaired also by the deputy secretary.

Productivity measures are ineffective in identifying low-value business practices.

In short, HUD does not have the tools to address short-term critical resource issues.

External Limits

Executive mandates that NPR and Executive Order cuts be accomplished through attrition alter HUD's focus from *managing its work force* to *administering attrition*;

Primary focus on reducing numbers in the short term will deplete HUD's skills pool unless more flexible work force management options are available;

"Management to numbers" is contrary to many NPR recommendations and restricts HUD's flexibility to effectively manage work force reductions; and

Expectations are that HUD's ongoing reinvention initiatives will be impacted while the department contends with "managing to numbers."

HUD has been successful in delaying the impact of the NPR recommendations for an additional reduction in its work force, at least for a time. The president's budget for fiscal year 1995 calls for a slight increase in staffing levels. HUD's latest report to OMB on its plans for accomplishing the goal of streamlining its operations and improving its services calls for stabilizing staffing at fiscal 1995 levels through fiscal year 1999. It states that resources "saved" as a result of streamlining will be applied to critical management deficiencies to further improve service delivery and reduce HUD's exposure to potential financial loss.

HUD management remains committed to building an effective resource management program in the longer term. Under the guidance of the RMSC it is developing a new resource management process, which is scheduled to be available in time for the fiscal year 1996 budget formulation. This process, and the resource management plans it will entail, is intended to support HUD's recently announced strategic performance system. The resource management process design was planned for completion in the spring of 1994 with implementation by September 30, 1994.

The resource management work group is developing management tools to support the resource management process. These tools fall into the categories of process analysis (business process reengineering, value analysis, etc.); workload analysis, including examining the potential for better utilizing RAGS and ETRS in their current or revised form; cost-benefit analysis; and a computerized staffing model to aid managers in reallocating and reassigning staff to support current reorganization efforts and making staffing adjustments in light of program and process changes that flow from the broader reinventing HUD efforts. The Office of Administration is developing in-house expertise and a HUD model for applying business process reengineering approaches to improving the efficiency and effectiveness of program and administrative processes.

Each of the major HUD program offices is reviewing program processes and regulatory requirements to determine how objectives can be accomplished more effectively. Management plans, as part of the strategic performance system, that set priorities for work accomplishment in their respective programs areas within the resources currently available are also being developed.

The Office of Housing has completed and disseminated its fiscal year 1994 management plan. In addition to setting priorities and goals for work accomplishment in each of the priority areas, Housing's plan requested that each field office submit information on major work activities (outside of the management goals, which are to be given priority) that are not expected to be fully accomplished within available resources. This information will be used to better analyze resource needs and in adjusting allocations. As a part of its resource planning efforts, the PIH has undertaken, with contractor assistance, an effort to develop methodology for estimating staffing needs for carrying out its principal programs and activities.

The goals established in the management plans will serve as starting points for developing the performance measures required by the Government Performance and Results Act (GPRA). Periodic management reports of accomplishments compared to the plans will be prepared and reviewed by top management officials. The CFO has leadership responsibility for the development of the strategic performance system and for HUD's compliance with GPRA.

Conclusions and Recommendations for Staff Estimation and Allocation

HUD is faced with difficult short-term resource management challenges without the advantage of any comprehensive and current assessment of what resources would be required to credibly carry out its programmatic responsibilities as they are currently structured. The lack of such an assessment does not by itself support the need for increased resources. By the same token, it does not support an argument that resources can be reduced without reducing HUD's capacity to carry out its responsibilities, perhaps below acceptable limits. Indeed, the Academy panel believes that available evidence is quite persuasive that those limits have already been breached.

HUD now has several management initiatives under way that will have important potential impacts on resource requirements in the longer term. In the short term, these initiatives will require considerable effort to implement and may cause disruptions and inefficiencies as well. The initiatives include:

- Redirection of program priorities and new program initiatives;
- Basic organizational restructuring;
- Business process re-engineering;
- Program consolidation or restructuring;
- Simplifying program regulations;

- Consolidation of selected administrative and program functions into fewer locations;
- Developing more reliance on risk-oriented approaches to program management and monitoring;
- Developing and implementing an effective training program to meet needs;
- Pursuing a vigorous program of data systems integration;
- Improving departmental financial management, including developing and implementing an effective management control program; and
- Absorbing new authorities for greater personnel and procurement flexibility as part of NPR.

Although these initiatives have the potential to make HUD more efficient and effective in the longer run, there may be little immediate or short-term payoff in the form of reducing resource needs. The Academy panel believes that HUD must have sufficient flexibility in resource availability to vigorously pursue these initiatives without unduly compromising ongoing program and management responsibilities.

Accordingly, the Academy panel was heartened by HUD's success in delaying, at least for some time, further reductions in staff resources. The panel believes that every effort should be made to ensure that available funding will support the level of staff resources included in the budget without compromising other important needs such as investment in training, information systems, and travel.

The Academy panel believes HUD has made a good start toward positioning itself to deal with its resource management problems in the longer term. Carrying through with these initiatives will take years of concerted, sustained leadership and effort. Although the panel must stop short of saying that a specific level of resources will be needed in future years, it believes that any proposal for significant adjustments in HUD's resources—up or down—should be supported by an analysis of the impact of that adjustment on HUD's capacity to carry out its responsibilities. As recommended in Chapter Three, the panel also believes that any proposal to increase HUD's responsibilities through new programs or activities should be accompanied by an analysis of the resources needed to carry out the new programs or activities and an explanation of how the resources are to be made available.

In this vein, the panel looks favorably on HUD's proposal to generally stabilize the size of its work force for the next few years while it moves forward with its initiatives to bring about a new HUD. As HUD proceeds with improvements, resource needs may lessen. In addition, action on the panel's recommendation to recodify HUD's programs (see Chapter Three) should free up resources that can be reallocated to priority needs. But any reduction should be based on an adequate analysis of the requirements of the work that must be accomplished to deliver programs effectively and carry out HUD's other responsibilities. Resource reductions should not be imposed arbitrarily.

The Academy panel also believes that the decision to contract out work rather than perform work with federal employees should be driven by cost-effectiveness considerations, rather than the kind of dollars (contract or personnel) that are or can be made available within arbitrary constraints on the use of resources imposed either internally or externally. That is, as the NPR did, the panel endorses flexibility in the use of budgetary resources available to carry out departmental functions.

HUD needs comprehensive information concerning resources needed to carry out its current programmatic responsibilities as now structured. Without such information, the department has no sound basis on which to analyze or judge the resource impacts and trade-offs inherent in the initiatives it has under way, or to assess the impact that an externally imposed cut in resources will have on the conduct of its responsibilities departmentwide. Thus, it is not in a good position to make its case to OMB and the Congress for maintaining existing resource levels or for additional resources.

HUD now has comprehensive information in RAGS on how its field resources have been used historically. The value of this information is, however, limited because many of the workload indicators in the system are not useful as measures of work accomplishment. HUD has only fragmentary information on utilization of headquarters staff.

Despite the lack of comprehensive information, anecdotal information available from many external and internal studies and audits, as well as from NAPA interviews with HUD officials, provide strong evidence that staffing shortages or imbalances exist in many of HUD's field offices, that training deficits exist, and that as HUD implements its initiatives resource requirements will need to be adjusted and training and retraining of staff will be necessary.

To meet its longer term need for an effective resource management program, HUD must invest time and resources in the development of a program that links determination of resource needs and allocation to management plans. The department will also need a range of tools to support such a system. HUD has started on this course, but much work remains before an effective program is in place.

The Academy panel recommends that HUD:

- ◆ **Continue its efforts to develop a comprehensive and effective resource management process and develop the tools needed in resource management.**
- ◆ **Require, as part of the process, that each HUD official at the assistant secretary level develop and periodically update an inventory of the functions and activities HUD should carry out in his or her area of responsibility; assign priorities to the functions and activities in accordance with a management assessment of risks and benefits, financial and otherwise, associated with each; assess the resources (staff numbers and skills, contract assistance, travel, training, etc.) that would be required to effectively carry out those functions and**

activities; and quantify the differences between resources available and resources needed at different levels of priority. The inventory of needed functions and activities, the assignment of priorities, and the assessment of required resources should have involvement and input, where applicable, of field office officials, and should anticipate the effects of initiatives, including program streamlining and consolidation, that have implications for resource requirements.

- ◆ Use the inventories of functions and activities, their assigned priorities, and the assessed levels of resources requirements as the basis for analyzing the marginal utility of alternative levels of resources within responsibility areas and for HUD as a whole, and of alternative allocations of available resources among and within responsibility areas. Functions of lesser priority that cannot be accomplished within available resources should be excluded from work plans.
- ◆ Follow through on its stated intention to examine in greater detail contract efforts that might be more cost-effectively accomplished with federal employees and, if warranted, recommend through the budget process authorization to accomplish the work through the most cost-effective method.
- ◆ At least for the time being, retain the Employee Time Reporting System and the Resource Allocation Guidelines System (RAGS), but emphasize to the program assistant secretaries the need to assess current workload indicators and revise them as appropriate to increase their utility as output measures and thus the utility of RAGS as a source of information that will be of value in resource management determinations. If better alternatives to these systems can be developed to provide historical resource utilization information that will aid in resource management determinations, consideration should be given to the need to continue either or both of these systems.

HUMAN RESOURCE MANAGEMENT

An organization needs a well-qualified, trained, and motivated staff if it is to accomplish its mission effectively and efficiently. HUD's work force is not in good shape. It suffers from a poor public image and criticism from its clients, and it is aging. For nearly 15 years, HUD has done little to recruit new staff. Furthermore, during this period, the department has reduced the level of professional, technical, and supervisory training, and eliminated its executive development program. Testimony in this study, as well as from other sources, indicates that many on HUD's staff are inadequately trained for their jobs.

Yet, during the course of this study, the Academy panel came away with the view that HUD, like many other public institutions, has a high proportion of staff who want to do their jobs well and are motivated by HUD's mission. Nevertheless, the level of cynicism of HUD's

staff is deep. Staff has suffered through too many unfulfilled promises. Data systems do not serve them well, political leaders have betrayed their trust, the organization has not behaved rationally on basic resource issues like training and travel, and each secretary seems to steer HUD in a different direction. Programs have proliferated, contractors are performing much work formerly done by staff, and information systems have multiplied, all with little or no attention to building institutional capacity to handle all of the changes.

Although HUD's current leadership is addressing some of the human resource management deficiencies, especially training and employee development, more attention to these problems is needed. In the panel's view, particular attention should be directed to staffing, executive and supervisory development, performance management, and staff communication.

Staffing

HUD now has approximately 20 percent fewer staff than it had in 1981. In October 1981, HUD staff numbered 15,888.³⁴ That number declined from 1981 through 1987, rose slightly from 1987 through 1990, but has declined steadily since 1990. By the end of fiscal year 1993, there were 12,823 staff or 3,065 fewer than were employed in 1981.

Given this staffing history, it is not surprising that very few new permanent staff have been hired during the past few years. In fiscal years 1992 and 1993, for example, only 175 permanent staff were hired in the major occupations within HUD.³⁵ Of these, 126 were for headquarters positions. Only a fraction of the hiring was at the GS-5 to GS-11 grade levels, which usually provide the future career leadership of a federal organization. In fiscal years 1992 and 1993 only 64 individuals were hired at grades GS-5 through GS-11 in the major occupations—43 for headquarters and 21 for regional and field offices.

HUD currently has no ongoing college recruitment program that encourages students to focus their course of study on a career in HUD. The only departmental recruiting effort is focused on developing relationships with a small number of historically black and Hispanic colleges and universities.

Prior to 1981, HUD had an intern program designed to attract and train staff for future leadership positions in the agency. Most interns were hired directly out of college at the GS-5 and GS-7 grade levels for this two-year training program. Successful interns could expect promotion in a career ladder to GS-13 in headquarters and GS-12 in the field. The program was briefly revived in 1990 and 1991, when 108 interns were hired. Since the 1991 class was appointed, however, no interns have been hired. HUD has also participated in the Presidential Management Intern (PMI) program, but only one PMI has been hired in recent years.

Not surprisingly, severely limited recent hiring at the professional entry-level grades has had a significant impact on HUD's work force demographics. From 1984 to 1990, the average age of HUD staff was 44; by the end of fiscal year 1993, it had increased to 45.8. About 29 percent of HUD's full-time permanent (FTP) staff were eligible for optional or early retirement as of the same date.³⁶ Other indicators of HUD's aging work force are:

- **High retirement eligibility in critical occupations.** In some occupations, 50 percent or more of the regional and field FTP staff will be eligible for retirement by September 1994. For example, 50 percent of the construction analysts in regional and field offices will be retirement-eligible, as will 70 percent of the appraisers in the former Region I and 53 percent in the former Region IX.³⁷ HUD Office of Personnel projections indicate that 15 to 30 percent of the retirement-eligible FTP staff in the 10 regional offices might retire if legislatively authorized buy-outs are offered.
- **Increase in average grade.** Between September 1991 and September 1993, the average grade of the HUD FTP work force increased by almost a half a grade—from 9.95 to 10.43. During this same period, the percent of FTP staff at grades 14 and 15 increased from 10.90 to 11.92 percent, and FTP staff at grades 11 and above increased from 59.95 to 66.87 percent of total FTP staff.
- **Aging of the future supervisory cadre.** The average age of staff at grades 11 and 12—the group from which future supervisors can be expected to be selected—differs little from the average age of current grade 13, 14, and 15 staff. In a number of occupations the lower graded group are only one or two years younger than their supervisors.

An organization with an aging work force faces the very real possibility that it will lose rapidly too much talent and experience at the leadership level in relation to the qualified talent that is available to assume leadership positions.

HUD Staffing Strategy

For most of the period since 1981, staff reductions have been achieved by attrition with only occasional and minor reductions in force. Secretary Cisneros has announced that any additional staff reductions required to meet the president's goal in reducing the federal work force will be accomplished through attrition. Although staff reduction by attrition avoids disruptive reductions in force, remaining staff may not have the skills needed, be in the right locations, have the needed ratio of supervisors to staff, or have an age distribution needed for long-range staff development and continuity. HUD managers, interviewed for this study, believe that, because of past reductions and employment freezes, the department already has serious imbalances in the skills needed to do its job.

HUD projects a stable staff level for the next few years. The fiscal year 1995 budget proposal includes a small increase from 13,275 to 13,348 employees, and HUD plans through 1999 are being developed based on this staff level. HUD plans to maintain its work force by hiring personnel with critically needed skills as attrition creates vacancies. Department management believes this strategy will allow HUD to address imbalances in employee skills more quickly than through extensive retraining of current staff.

Conclusions and Recommendations on Staffing

HUD leadership is facing a major staffing challenge—meeting the near-term need to effectively carry out its responsibilities, while ensuring competent leadership for the future. The near-term need is for staff with the skills required to work in the new organizational structure being created as well as to address high risk areas such as multifamily loan management, where staff and skills deficits have in part exposed HUD to billions of dollars of potential defaults of insured multifamily mortgages. For the longer term, HUD staff must be qualified and trained to assume leadership roles as managers and supervisors retire.

The plan to fill vacancies with staff who have the currently needed skills is a reasonable strategy given HUD's current condition. A policy of reducing staff levels through attrition, however, requires a significant investment in remaining staff to ensure they are trained for HUD's priority objectives. Failure to do so will result in a significant waste of current staff talents and result in major staff morale problems. Filling selected vacancies with skilled staff, coupled with a program to train and reassign current staff, and limited recruitment at the entrance level grades, promises to make the most of available staff resources.

The Academy panel recommends that HUD:

- ◆ **Include a plan to retrain and reassign current staff to high-priority programs in its staffing strategy; and**
- ◆ **Balance the recruitment of fully trained staff with an aggressive college recruitment program, supported by adequate training programs, to ensure the agency has a continuing supply of highly qualified persons to replace its aging work force.**

Training and Staff Development

Within HUD, training is organized into five broad categories:

- Program and technical training;
- Supervisory and management training;
- Professional development;
- Personal computer training; and
- Secretarial and clerical training.

Field training needs are determined through HUD's computer-based Training Needs Assessment System (TNAS). The TNAS catalog lists available training courses. For example, for the fiscal year 1993 needs assessment, program and technical training included 22 courses

for CPD staff; 34 for multifamily housing staff; 22 for single-family housing staff; and 30 for PIH staff. TNAS lists a number of courses in the other four training areas as well.

Training needs are identified in the field at the branch or lower organizational level in each of the five categories. The identified needs are forwarded up the organization hierarchy. Program assistant secretaries and other primary organization heads add one-time training needs; assign priorities to all needs; and submit this information to the departmental training office.

Available training resources are allocated to identified needs based on priorities established by program offices. The departmental training office develops a nationwide program of technical training offerings and delivers courses to headquarters staff in the other four categories. The regional personnel offices provide training to regional and field office staff in all categories except program and technical training.

Program and Technical Training

Based on program office priorities, the departmental training office works with the program office to develop a training plan, advises on the training techniques that will be used, and reviews the training package before it is presented. The training office arranges for the training and serves as registrar for the courses. Actual training is done by program office staff.

In fiscal year 1993, the training office budget for program and technical training was \$3.9 million. This budget covered trainee travel and lodging as well as contract support for training. Program offices generally supplement the overall training budget when training that was not included in the fiscal year training plan is requested. These supplements increased the total fiscal year 1993 training budget to \$5.9 million. Attendance in program and technical training courses totaled 3,640 persons in fiscal year 1993.

Occupational Training

As part of an effort to improve program and technical training, work is under way to develop a training curriculum for each of the major occupations in HUD which make up 85 to 90 percent of the field staff. This training is based on job analysis, which determines the knowledge and skills needed to perform in the occupation at a full performance level. To date, the curriculum for the housing management specialist position in PIH has been completed; the job analysis for the CPD representative position is finished; and the job analysis for multifamily loan specialist and FHEO representative positions has begun.

Design of these occupational training programs is a major effort. For each occupation, it costs about \$75,000 to identify needed occupational skills and define training needs. The cost of developing the needed training modules depends on whether training courses are available or whether new courses must be developed. It cost about \$1 million to develop training courses for the PIH housing management specialist position. In addition, the curriculum for each occupation must be reviewed and updated as the position responsibilities are altered to address changes in programs, program processes or policies, or program priorities.

Another major program and technical training effort in fiscal year 1993 was the training of HUD appraisers to meet professional certification requirements. Fifty staff members each attended five courses for a total of 168 hours of training. Of those 50, 47 took the certification exam at the end of the course; 43 passed and have been certified, a success rate that is substantially better than the national average, which is 60 percent.

Executive Development and Supervisory Training

For some time, HUD has neglected the training required to build a strong executive corps. The executive development program was completely eliminated during the Bush administration so that all of HUD's limited training resources could be directed to technical training of field personnel. As a result, no selection process is in place for the identification and development of managers who have the potential to be executives.

Supervisory training also has received less attention in recent years. Support for this type of training in regional and field offices evaporated as a result of staff and travel budget reductions in the training division. Instructors are no longer provided in the field unless the requesting office pays travel costs and a trained instructor is available. Instructors are frequently unavailable because many were assigned to other units as part of a personnel office reorganization.

Level of Training Activity

HUD keeps records of all training of eight hours or more, whether it is provided by HUD, a private organization, or another federal agency. In fiscal year 1993, there were 14,284 attendees (some staff attended more than one training course) in training courses of all types. This was the lowest level in the past four years and represents a decline from 17,210 in fiscal year 1992; 16,411 in fiscal year 1991; and 14,707 in fiscal year 1990.

The level of effort in HUD-provided program and technical training has also declined during the past four fiscal years. In fiscal year 1990 there were 4,616 participants in such training; in fiscal year 1991, the number dropped to 4,468 participants; in fiscal year 1992, it dropped further to 3,916; and in fiscal year 1993, it fell again to 3,640.³⁸

Training Issues

Although HUD has an ambitious and innovative training program for program and technical staff, NAPA staff interviews and their review of previous studies of HUD indicate that the department's training is considered to be inadequate, both in quantity and in quality:

- A 1984 GAO report stated that HUD continued to have problems in developing the right skills and expertise for many of its program areas.
- From 1988 to 1992, numerous IG reports called for improved staff training to help correct identified problems.
- Peat Marwick, Arthur Anderson, the President's Private Sector Survey on Cost

Control, and the Secretary's Task Force on Program Financial Management all reported on a need for improved staff training.

- Many of the representatives of outside groups contacted by NAPA staff during this study stated that HUD staff are inadequately trained for their jobs.³⁹

NAPA interviews with HUD staff confirm that training is considered a major problem. Issues raised by the interviewees include:

- New programs and guidance are introduced with only fragmentary central direction.
- The Upward Mobility program was not accompanied by the kind of training and education needed to properly equip program participants for their new duties.
- Staff are often assigned across program lines with very little cross-training.
- The variability of HUD's mission and legislation and the changes made to them keep HUD staff in a constant state of untrained confusion.
- Good technicians with no management background are being promoted to managerial positions without training for their new roles.

Recent Training Initiatives

In early 1993, as part of the HUD reinvention program, Secretary Cisneros created the Secretary's Task Force on Departmental Training to review training programs for HUD employees and intermediaries and recommend improvements. This task force included 32 managers and staff from all headquarters levels. Members were selected jointly by the union and management. Nine of the members had significant field office experience. The task force was co-chaired by a management official and a union president. The task force's interim report, which was issued in May 1993, examined five areas:

- Training needs assessment;
- Career development;
- Provision of training to HUD intermediaries;
- Training delivery options; and
- Establishment of a HUD academy.

The task force made a number of major recommendations intended to create a new commitment to training in HUD.⁴⁰ These recommendations include:

- Issuing a statement from the secretary on the importance of training in achieving HUD's mission and goals;
- Requiring every employee, supervisors and nonsupervisors, to take training in multicultural diversity and contemporary lifestyles;
- Developing a comprehensive assessment of training needs, addressing organizational, occupational, and career development needs;
- Establishing a comprehensive career development program that would be available to all HUD staff;
- Training HUD intermediaries in the technical requirements of programs, and in HUD's administrative policies, procedures, and requirements;
- Reducing dependence on traditional classroom training and implementing distance learning to maximize the training audience and minimize travel costs;
- Establishing a HUD academy as a center for human and community development to serve as a place where people within and outside of HUD can learn, think, discuss, recommend, and plan ways to improve the nation's communities; and
- Centralizing training planning and delivery efforts under a high-level executive and establishing an advisory board to help set priorities and ensure that resources are appropriately allocated.

The department is taking action to implement many of the task force recommendations. The secretary issued a memorandum on staff training in HUD, dated July 27, 1993, that outlines his training priorities:

- A comprehensive training needs assessment that addresses organizational, occupational, and individual needs;
- Career development that identifies career occupational paths and promotes upward mobility, program technical cross-training, management and supervisory development, exchange across government entities, and basic core training and skills upgrading for all staff;
- Training of HUD intermediaries to ensure their representations of HUD's programs are consistent with HUD intentions;
- State-of-the-art training delivery systems that improve quality, quantity, and timeliness of training; and
- Establishment of a HUD academy as a central location for training of HUD employees, intermediaries, staff of other agencies with similar missions, and recipients of HUD programs.

The memorandum also described actions under way to improve staff training, including a requirement for Individual Development Plans (IDPs) for all employees beginning in fiscal year 1994. Training is now under way on completion of these IDPs. Some 65 activities, including rotational assignments, self-development efforts, and formal training are identified in the IDP training package. Although completion of an IDP is not mandatory, all employees will be given the opportunity to do so. These plans were to be completed by the end of March 1994 and are intended to form the basis for determining individual staff training and development needs.

Training Academy Established

Until recently, headquarters training direction has been provided by the Division of Training and Productivity Improvements in the Office of Personnel. A Training Academy was recently established by transferring the division's functions from the Office of Personnel. In addition to the division's functions, executive development and intern recruitment responsibilities from other Office of Personnel divisions were transferred to the academy. The deputy director of personnel, who served as co-chair of the Training Task Force, was selected to head the new academy.

The academy is to be organized into three institutes: a Management Institute will provide leadership for HUD management and supervisory training; a Program and Technical Institute will direct the development and presentation of program and technical training throughout HUD; and an Employee Development Institute will provide leadership for the Upward Mobility program and encourage colleges and universities to provide courses that relate to HUD staff needs.

The 22 members of the headquarters training office staff have been reassigned along with two members of the personnel office staff who had responsibility for executive development and intern recruitment and training. Three new positions have been added. Regional training officers also are being reassigned to the academy as outstationed staff.

Training Academy staff stated that the fiscal year 1994 budget did not significantly increase funding of training programs; the funding level for the Academy is \$6.25 million in 1994 for headquarters and field training programs. The secretary's Performance Agreement with the President, however, calls for a 50 percent increase in the hours of training of HUD employees and intermediaries.

Distance Learning

Another training priority is the development of distance learning technology to reduce training travel costs. Using one-way video and two-way audio transmission, distance learning provides classroom training when the teachers and learners are not able to meet in the same place at the same time. The instructor and students are able to interact through the use of individual response keypads as well as by voice.

A pilot distance learning course was provided to 110 attorneys in HUD's Office of General Counsel (OGC) together with 115 Department of Justice and HUD housing staff. A

contractor designed the course which was then presented using U.S. Postal Service video facilities. The course evaluation was very positive; both the OGC and housing staff were pleased. Six distance learning courses, including one supervisory training course, are planned for fiscal year 1994. Satellite receivers for 55 field offices were to be installed by March 1994.⁴¹ Arrangements are being made to lease equipment to permit interaction between trainers and trainees.

Conclusions and Recommendations on Training and Staff Development

Although HUD has an active training program, the program is generally assessed as inadequate for HUD's needs. The Training Task Force proposed an ambitious training agenda which, if fully adopted, would result in a significant increase in training for HUD staff. The headquarters positions assigned to the Training Academy in fiscal year 1994 represent a staffing level significantly lower than the staffing level of the departmental training office from 1985 to 1986. The fiscal year 1994 budget for the academy (\$6.25 million, headquarters and field) is approximately the same level as the fiscal year 1993 departmental training budget (\$5.9 million, headquarters and field). The 27 positions assigned to the Training Academy represent a staffing level which is little more than half the staffing level of the departmental training office from 1985 to 1986, and Training Academy staff stated that the budget for the academy is at the fiscal year 1993 level. The fiscal year 1995 estimate does call for a significant budget increase to \$10.5 million. If this increase is realized, the academy's ability to carry out the secretary's training agenda will be significantly increased.

The panel strongly supports the secretary's increased emphasis on staff training. Training must be supported with additional resources if goals are to be realized. The major changes in the HUD organization structure alone will necessitate a major training program if staff are to perform effectively in their new assignments. The supervisory training program must be given far more emphasis.

In addition, the occupational training curricula must be updated when program changes are made and staff must be adequately and promptly trained about those changes. Requesting training funds for such training only in later fiscal years guarantees staff will not receive adequate and timely program and technical training. Training must be considered as a cost of program and organizational change and this cost must be factored into the decision process.

Further, HUD cannot become an adequately performing institution of government without a strong executive corps comprised of able political and career officers. When the Internal Revenue Service (IRS) faced charges of incompetence and corruption in the early 1950s, its leadership gave high priority to executive development as part of the rebuilding process of that organization. One of the key officials in that process believes that the development of a strong, highly professional executive corps was the single most important factor in overcoming the low esteem in which IRS was held.

HUD's challenge is somewhat similar today. Because of anticipated staff losses, such a program is essential to ensuring that qualified staff are prepared for future leadership positions. The program should include a competitive selection process for entry into the executive development program; training of the program participants to enhance their managerial skills and

broaden their perspective of HUD programs and operations through cross-training in HUD programs; and continued development of successful program participants by carefully selected assignments as they assume more responsible positions in HUD.

The Academy panel recommends that HUD:

- ◆ **Develop a training and staff development plan that provides for a significant increase in the level of staff and dollar resources and meets the training needs in the department adequately.**
- ◆ **Adopt the policy that all major program redesigns and reorganizations define and cost out training needs as an integral part of their implementation plans.**
- ◆ **Develop an executive development program.**

Performance Management

Performance management is another human resource management system that needs attention. The HUD performance appraisal system was identified as a major problem in the reinventing HUD review. The reinventing report on workplace conditions states that the system "is seen as time consuming, paper intensive, confrontational, and unfair." Other performance appraisal system problems described in the report include:

- The requirement for higher level review of ratings is viewed as a means to deprive employees of the ratings they deserve and to reduce the authority of the supervisor.
- Appraisals are a major source of labor-management friction.
- The correlation of pay, awards, and performance leads to a perception of bias and favoritism.

In their evaluations, the U.S. Office of Personnel Management gives mixed reviews to the performance appraisal system. For example:

- A 1992 evaluation in Kansas City states that the supervisory survey found that the performance appraisal system was working well.
- A 1993 evaluation in Seattle states that appraisals were completed in a timely manner and that supervisors believe the performance plans clearly spell out performance expectations.

- A 1993 evaluation in Atlanta states that staff do not believe the appraisals keep up with constantly shifting workloads and that the process does not motivate employees to improve performance.
- A 1993 evaluation in Philadelphia states that the performance management system is held in low regard. The process does not motivate employee performance, and rating accuracy is questioned.
- A 1993 evaluation in New York states that the performance management system is working quite well overall. Managers are satisfied with the training they have received and believe that performance plans spell out expectations, employees are kept informed, and ratings are generally accurate. But managers do not believe that the appraisal process motivates staff to improve performance, that poor performers are dealt with effectively, or that the performance awards system provides incentives to staff.

In summary, the current performance appraisal system appears to work well administratively, but it does not meet significant management needs.

The Current Appraisal System

The stated purposes of the current appraisal system are to:

- Communicate and clarify departmental goals and objectives;
- Identify individual accountability for the accomplishment of organizational goals and objectives;
- Evaluate and improve individual and organizational accomplishments; and
- Use the results of performance appraisal for adjusting basic pay and determining performance awards, training, rewarding, reassigning, promoting, reducing in grade, retaining, and removing employees.

The rating cycle is the same for all staff: October 1 through September 30. A progress review meeting is required in April. Performance plans are to be developed during the first 30 days of the rating period. Employee participation in plan development is required for supervisory staff and encouraged for nonsupervisory staff. Performance plans are to be based on the requirements of the employee's position and must include accomplishment of program objectives, goals, program plans, work plans, or other means that account for program results.

The current appraisal system provides for establishment of a performance standard for each critical element at the outstanding, fully acceptable, and unacceptable levels. Each critical element can be rated at one of five levels; the three identified above plus two intermediate levels, highly successful and marginally successful. Five summary rating levels are used, the same as for the individual critical elements. Detailed rules are provided for conversion of ratings on the critical elements to a summary rating.

The rating official evaluates the employee's performance of the critical elements and recommends a summary rating to the reviewing official. The reviewing official assigns the final rating. Ratings are reviewed by the head of the organizational unit. The rating is considered official when it is signed by the rating or reviewing official, signed or held for three days without comment by the employee, and received by the personnel office.

Current Actions Being Taken

In July 1993, HUD established a joint labor-management task force to recommend an alternate performance appraisal system. The task force issued a draft report in November of that year. The task force was charged with responsibility for developing a performance management system that would more effectively promote improved organizational and individual performance and, at the same time, be easier and less burdensome to administer. Additional work is being done on the report before it is issued in final form.⁴²

Staff dissatisfaction with their performance management system is not unique to HUD. Many federal agencies, with a variety of systems based on the same legal requirements, report similar dissatisfaction.

Performance appraisal has become an almost universally accepted fact of organizational life. Federal law and regulations, primarily in the equal employment opportunity area, have created strong pressures to formalize performance appraisal procedures. But few organizations, public or private, report success in this area. A recent major review of the literature in the field concluded that performance appraisal "is in a troubled state; it makes great theoretical sense but falters in actual practice."⁴³ One of the few generally accepted performance appraisal principles is that an organization should change its system every five years because staff acceptance is generally high for a new system, but soon declines.

The NPR report⁴⁴ states that performance management systems should have a single goal—to improve the performance of individuals and organizations. The report states that current systems have been designed to serve multiple purposes: to enhance performance, authorize higher pay for high performers, retain high performers, and promote staff development. "Not surprisingly, they serve none of these purposes well . . ." The report recommends that agencies be allowed to design their own systems, tailored to unique agency culture and needs.

Conclusions and Recommendations for Performance Management

The Academy panel believes that regular performance reviews should focus on how performance can be improved and what will enable improvements, e.g., specific training, improved physical or social working conditions, improved equipment, realignment of duties, or any of the many factors that affect job performance. Procedural requirements of a performance appraisal system should be kept to a minimum. For example, a three-level rating system could be adopted with a documented rating required only where a failing or outstanding rating is proposed. All other staff would automatically receive a satisfactory rating.

Revisions to the performance management system that focus on positive ways to improve performance while eliminating the contentious features of the current system, could help improve employee performance and overall working conditions in HUD.

The Academy panel recommends that HUD:

- ◆ **Focus performance appraisal, as the NPR recommends, on the goal of improving individual and organizational performance; and**
- ◆ **Reduce the procedural requirements of the performance appraisal system to a minimal level by using three rating levels and providing that only failing or outstanding ratings require written justification.**

Staff Communication

Although no staff attitude survey was conducted as part of this study, a number of indicators point to a significant staff morale problem in HUD. The current employee climate at HUD, reported in the reinventing reports, NAPA staff interviews, and OPM evaluation reports, appears to be quite contentious.

HUD staff repeatedly commented that communication on program changes is inadequate. HUD clients are often advised of program changes before HUD staff. This problem was confirmed in the interest group comments on HUD. Lack of timely communication within HUD impedes staff ability to respond to customers.

Other specific problems that came to the attention of NAPA staff:

- Lack of confidence in supervisors by employees;
- Claims of racist and sexist behavior;
- Charges of preselection and placement of unqualified people;
- Charges of favoritism and bias in personnel decisionmaking;
- A view that political considerations play a role in the personnel decision-making process.
- Increased employee dissension, polarization, and even a breakdown of common courtesy.

Political penetration of the career civil service was alleged by a number of current and past staff members who were interviewed. In light of the attention given this question in the 1990 Senate Subcommittee report,⁴⁵ considerable staff work went into attempting to determine

whether political penetration does in fact exist. Although no solid evidence was found that showed partisan political appointments to career positions, the fact that staff have a strong perception that political preference affects staff assignments in itself is a major problem.⁴⁶

Conclusions and Recommendation for Staff Communication

The HUD reinvention process raised a great number of significant working condition problems that are now being addressed. It is obvious that this opportunity for staff to raise questions unleashed many pent-up frustrations. In the Academy panel's view, the range and variety of problems raised point to a need for a regular ongoing assessment of the state of employee-management communication and identification of problems that are impeding the highest possible level of mission accomplishment.

A number of techniques are available for making such an assessment. Regular meetings that cut across organizational units, obtaining feedback from staff on management issuances on program priorities and program changes, electronic town meetings using the communications equipment now being installed, regular union management meetings, and periodic attitude surveys of all or a sample of staff, can be used to determine the communications health and morale of the organization.

The Academy panel recommends that HUD:

- ◆ **Institute a continuing program to secure an ongoing assessment of the effectiveness of staff communications within HUD and to identify problems on a timely basis.**

ENDNOTES: Chapter Five

1. *Title 31 of the United States Code* provides the basic requirements and objectives of financial management in executive agencies. It requires agency heads to establish and maintain systems of accounting and internal control, meeting standards prescribed by the Comptroller General of the United States, that provide:

complete disclosure of the financial results of the activities of the agency;

adequate financial information needed for management purposes;

effective control over, and accountability for, assets for which the agency is responsible, including internal audit;

reliable accounting results that will be the basis for preparing and supporting budget requests, controlling and carrying out the budget, and providing financial information required by the President in connection with budgetary responsibilities; and

suitable integration of agency accounting with the central accounting and reporting responsibilities of the Secretary of the Treasury.

As amended by the *Federal Managers' Financial Integrity Act of 1982 (FMFIA)*, title 31 requires that the agency head evaluate the internal accounting and administrative control systems to decide whether they provide reasonable assurance that:

obligations and costs comply with applicable law;

all assets are safeguarded against waste, loss, unauthorized use and misappropriation; and

revenues and expenditures applicable to agency operations are recorded and accounted for properly so that accounts and reliable financial and statistical reports may be prepared and accountability of the assets may be maintained.

Under FMFIA, the agency head must report annually to the President and the Congress on the results of evaluations of accounting and internal control systems, identifying any "material weakness" in the systems and describing plans for correcting the weakness, and stating whether the agency accounting system(s) conforms to the principles, standards and requirements prescribed by the Comptroller General. "Material weakness" is defined as a weakness in internal controls which would significantly impair the fulfillment of an agency component's mission; deprive the public of needed services; violate statutory or regulatory requirements; significantly weaken safeguards against waste, loss, unauthorized use or misappropriation of funds, property, or other assets; or result in a conflict of interest.

The Office of Management and Budget (OMB) provides guidance to agencies on the evaluations to be conducted under FMFIA. Guidance is contained in OMB Circulars A-123 (internal controls) and A-127 (financial management systems).

As amended by the *Chief Financial Officers Act of 1990 (CFO Act)*, title 31 requires that each major executive agency have a chief financial officer (appointed by the president with advice and consent of the Senate), reporting directly to the agency head, with responsibility for overseeing agency financial management personnel, activities and operations. The CFO Act also requires the preparation of annual financial statements covering each revolving and trust fund of each agency and to the extent

practicable, the accounts of each office, bureau and activity of the agency which performed substantial commercial functions during the preceding fiscal year. It also provided for pilot projects under which certain agencies were required to prepare financial statements for certain fiscal years for all the accounts of all the offices, bureaus and activities of that agency. HUD was required to prepare such statements for the fiscal years ending September 30, 1991 and 1992. The financial statements must be audited in accordance with generally accepted government auditing standards, the audit to be conducted by the agency's inspector general or by an independent external auditor as determined by the inspector general (or, at the discretion of the Comptroller General or request of a committee of the Congress, by the Comptroller General).

Within HUD there are two corporate entities -- one, the Federal Housing Administration (FHA), is a financially but not organizationally distinct entity within HUD, consisting of the FHA fund made up of four separate mortgage insurance funds; the other, the Government National Mortgage Association (GNMA) is a financially and organizationally separate entity within HUD which guarantees payment of principal and interest on privately issued securities backed by pools of mortgages insured or guaranteed by FHA, the Department of Veterans Affairs, or the Farmers Home Administration. FHA and GNMA are subject to the *Government Corporation Control Act of 1945*, with accounting in accordance with generally accepted accounting principles (GAAP) and financial statement audits in accordance with generally accepted auditing standards (GAAS).

2. HUD's audited consolidated financial statements and accompanying notes are included in the HUD Inspector General's report on *Audit of the U.S. Department of Housing and Urban Development Fiscal Year 1992 Financial Statements*, 93-FO-177-0004, June 30, 1993; they are included also in HUD's *Fiscal Year 1992 Consolidated Financial Report* (undated), beginning at page 198. HUD's consolidated statement of operations for the year ended September 30, 1992 shows the following breakdown of expenses and revenue and financing sources (in millions):

EXPENSES

Section 8 Subsidies	12,390
Community Development Block Grant	3,091
Operating Subsidies	2,165
Low Rent Public Housing Grants	2,087
Section 235/236	788
Other Subsidies, Grants, and Loans	660
Mortgage-Backed Securities Program Expense	29
Increase in Loss Reserves	6,558
Provision for Losses on Foreclosed Properties	1,299
Provision for Losses on Mortgage Notes and Loans	1,024
Interest	1,333
Salaries and Administration	985
Other	<u>(29)</u>
Total Expenses	<u>32,381</u>

REVENUES AND FINANCING SOURCES:

Operating Revenues:	
FHA Premium and Fee Income	1,585
GNMA Mortgage-Backed Securities Program Income	289
Interest and Penalties	1,737
Other	270

Financing Sources:	
Appropriations Expensed	<u>22,097</u>
Total Revenues and Financing Sources	<u>25,977</u>
EXCESS OF EXPENSES OVER REVENUES AND FINANCING SOURCES	6,404
3.	<i>Increasing HUD's Effectiveness Through Improved Management</i> , GAO, January 10, 1984.
4.	<i>Secretary's Report on Compliance with the Federal Managers' Financial Integrity Act</i> , December 1988.
5.	<i>Secretary's Report on Compliance with the Federal Managers' Financial Integrity Act</i> , December 1989.
6.	Establishment of positions of chief financial officer for HUD and comptroller for FHA were included, among other things, in "HUD reform" legislation proposed by the Secretary and subsequently enacted (P.L. 101-235; December 15, 1989); this legislation preceded enactment of the CFO Act of 1990 which, in effect, superseded the chief financial officer provisions of the HUD reform act). The CFO was to have responsibility to provide leadership and set policy in the financial management area and to lead efforts to improve financial systems.

The Secretary asked NAPA for assistance in defining the responsibilities of the CFO and the FHA comptroller. A NAPA study team stated that it found that:

despite the essentially financial character of the bulk of HUD's programs and activities, financial management has not in the past held a high place in the Department's management priorities. The large number of financial management systems --accounting, financial control, cash management, credit management, debt management, financial reporting -- developed by the department have not been guided by a unifying set of financial management policies and systems standards. The result is a highly fragmented collection of systems that operate primarily as individual systems rather than as integrated components of an overall system. These systems often do not satisfy management needs for timely and accurate financial information, do not provide for adequate financial control, and lack credibility and acceptance among program officials. (*Organizing for Improved Financial Management*, NAPA, March 1990).

The NAPA study team stressed the importance of continuity in high level leadership to improvement of financial management in HUD. In addition to assisting in defining the responsibilities of the CFO and FHA comptroller, the study team recommended that because financial management is integral to sound program management and an important responsibility of program managers, the FHA comptroller's position be redefined to extend responsibilities to all programs within the jurisdiction of the Assistant Secretary for Housing/FHA Commissioner, rather than just to the FHA mortgage insurance programs. It recommended that to complete a financial management structure for HUD, there should be comptrollers reporting to the assistant secretary level in four additional financially important program and activity areas -- community planning and development, public and Indian housing, GNMA, and administration. The CFO was to be responsible for establishing financial management policies and standards and providing leadership and oversight for financial management systems planning, development and operation for HUD, and for helping assure the professional

competence of financial management personnel (a matter the study team was convinced warranted early and serious attention). The comptrollers would serve as counterparts to the CFO in their respective program or activity areas, responsible to their immediate superiors and to the CFO for ensuring compliance with financial policies and standards and working with the CFO in assessing HUD's financial management needs, planning to meet them and executing the plans developed. The study team's recommendations were accepted.

The CFO position was not filled until January 1991; some of the comptroller positions were filled earlier. Also, the Secretary later decided to extend the comptroller concept to the field, establishing regional comptroller positions in each regional office to be in charge of regional accounting, internal control reviews, and audit resolution. Not all of these positions have been filled.

7. Secretary's *Report on Compliance with the Federal Managers' Financial Integrity Act*, December 1993.
8. The Secretary's December 1993 report states that of 126 material weaknesses in internal controls reported since enactment of FMFIA, 104 had been corrected and 19 remained pending; 8 of the 19 pending weaknesses were reported for the first time prior to 1991 and 9 were reported for the first time in 1993. For 17 of those reported corrected, corrective action remained to be independently verified. The Secretary provided a crosswalk between the reported material weaknesses in internal controls and the eight "high risk areas" relating to HUD identified by the Office of Management and Budget and reported to the Congress with the President's budget. The General Accounting Office has recently added HUD as a department to its list of high risk areas, citing longstanding organizational, systems and staffing problems. Both OMB and GAO recognized the efforts that HUD leadership is making to address problems.
9. The value of the CFO Act requirements relating to financial statement preparation and audit is shared by HUD management, the Office of Management and Budget and the General Accounting Office. The OMB has extended the pilots for an additional 3 years and has called for expanding the requirements to all 23 CFO Act departments and agencies.

HUD's consolidated financial statements for fiscal years 1991 and 1992, together with the auditor's reports thereon and the auditor's reports on internal controls and on compliance with laws and regulations, are reproduced as parts of the Secretary's *Consolidated Financial Reports*, which have been issued for fiscal year 1991 and fiscal year 1992. Each of these reports also contains, among other information, a summary of the most recent Secretary's report on compliance with FMFIA.

10. These problems are identified in the Inspector General's *Semiannual Report to the Congress for the Period Ending September 30, 1993*, required by Public Law 95-452. In that report, HUD management was given the opportunity to report progress in and plans for correcting the problems. The 10 problems had initially been identified as such in the Inspector General's semiannual report for the period ending March 31, 1992, drawing from past work by the Inspector General's office and others and summary statements of problems included in prior Inspector General reports.
11. Section 8 housing assistance contracts are of several types and in the past have had terms of between 5 and 40 years, depending on the type and the when entered into. The first renewals of original contracts occurred in fiscal year 1989 and the last will occur in about 2025. Renewals before fiscal year 1994 were for 5-year terms; fiscal year 1994 renewals were for 4-year terms. Renewed contracts may be again renewed or replaced at their expiration. In current dollars, budget authority to fund contract renewals grew from about \$39 million for fiscal year 1989 to about \$7.2 billion for fiscal year 1994 and is projected to rise to about \$17.9 billion by fiscal year 1999.

12. Department of Housing and Urban Development/Office of Management and Budget Joint Swat Team, *Final Report on Management of Section 8 Housing Assistance Programs*, November 6, 1991; HUD Office of Inspector General report 92-TS-103-0008, *Review of HUD's Fiscal Year 1992 and 1992 Budget Estimating Processes For Section 8 Contract Renewals and Amendments*, April 21, 1992.
13. Begun in 1991 following a major study of Section 8 systems needs, the integration effort contemplated one system --CFS/TRACS (Control File Subsystem/Tenant Rental Assistance Certification System)-- to meet the needs of both project- and tenant-based assistance programs. With the redirection of systems integration efforts last summer, the two separate systems are being developed. The CFS subsystem, now in two parts, will support both systems, at least as an interim data base.
14. U.S. Department of Housing and Urban Development, Office of Inspector General, *Semiannual Report to Congress For the Period Ending March 31, 1993*, Number 29, As Required by Public Law 95-452.
15. The U.S. Housing and Urban Development, *Report on Compliance with the Federal Managers' Financial Integrity Act, December 1993* identified the following high risk areas and material weaknesses in HUD:

High Risk Areas:

- | | |
|----|--|
| #1 | Department Financial Systems |
| #2 | Section 8 Financial Systems |
| #3 | FHA Single Family Housing Property Disposition
(Recommended for Deletion) |
| #4 | FHA Fund Equity |
| #5 | GNMA Title I Claims |
| #6 | FHA Multifamily Housing Loan Servicing |
| #7 | Public Housing Authority Management |
| #8 | Resource Management (Recommended New Addition) |

Material Weaknesses:

- | | |
|-------|---|
| 83-1 | Section 8 Subsidy Payment Process (Housing) |
| 87-6 | Section 8 Special Claims (Housing) |
| 88-3 | Management of Public Housing Modernization Projects (PIH) |
| 88-9 | Management of Assisted Housing Management Branches (PIH) |
| 88-12 | Single Family and Multifamily Property Disposition (Housing) |
| 89-1 | Section 235 Accounting System (CFO) |
| 89-2 | Section 236 Excess Rental Income (Housing) |
| 89-9 | Development and Maintenance of Automated Systems for
Public and Indian Housing (PIH) |
| 91-2 | CDBG Entitlements (CPD) |
| 91-3 | Emergency Shelter Grants Program (CPD) |
| 93-1 | Servicing of Direct Loans for Section 202 Elderly Housing
Projects (Housing) |
| 93-2 | Management and Control of Staff Resources (Deputy Secretary) |
| 93-3 | FMFIA Program (CFO) |
| 93-4 | Single Family Resource and Asset Management Strategy (Housing) |
| 93-5 | Direct Endorsement Program (Housing) |
| 93-6 | Section 8 Bond Refunding (Housing) |
| 93-7 | Multifamily Resource and Asset Management Strategy (Housing) |
| 93-8 | Title II Prepayment and Preservation Program (Housing) |

93-9 Controls over Systems Development, Operation and Maintenance (GNMA)

16. Inventory of HUD Information Systems.

<u>Program Area</u>	<u>Financial/Mixed</u>	<u>Non-Financial</u>	<u>Total</u>
Housing	39	22	61
PIH	9	6	15
CPD	14	2	16
GNMA	7	4	11
Admin	11	59	70
CFO	24	3	27
FHEO	0	12	12
GC	1	5	6
PD&R	1	9	10
IG	0	14	14
Misc.	<u>0</u>	<u>16</u>	<u>16</u>
Total	106	152	258

Key: PIH = Public and Indian Housing
 CPD = Community Planning and Development
 GNMA = Government National Mortgage Association
 Admin = Administration
 CFO = Chief Financial Officer
 FHEO = Fair Housing and Equal Opportunity
 GC = General Counsel
 PD&R = Policy Development and Research
 IG = Inspector General

17. The Working Capital Fund (WCF - Identification No. 86-4586-0-4-451) is authorized by the Department of Housing and Urban Development (HUD) Act of 1965 (79 Stat. 670). It finances automated data processing services and office automation initiatives which can be performed more efficiently on a centralized basis. The data processing services are provided to "customer" offices, and the WCF is reimbursed from funds held by these offices. Figures from the fiscal year 1995 budget are as follows (thousands of dollars):

<u>Estimated Obligations:</u>	FY 93 <u>Actual</u>	FY 94 <u>Estimate</u>	FY 95 <u>Estimate</u>
IRM Services	111,264	124,345	143,151
Equipment Purchases	<u>2,482</u>	<u>1,800</u>	<u>1,800</u>
Total	113,746	126,145	144,951

Sources of Funds:

Salaries & Expenses, HUD	93,174	87,199	92,199
FHA Fund	13,181	30,872	48,000
Inspector General	2,548	2,636	2,702
Ofc. of Fed Hous. Enterprise	1,800	0	0
Housing Counseling Fund	<u>189</u>	<u>227</u>	<u>250</u>

	Total Payments to WCF	110,912	120,934	143,151
	<u>Unobligated Balances:</u>			
	Start of Year	6,679	7,011	1,800
	Prior Year Oblig. Recovery	3,166	0	0
	End of Year Balance	<u>-7,011</u>	<u>-1,800</u>	<u>0</u>
	Total Estimated Obligations	113,746	126,145	144,951
18.	Financial Management Systems Strategic Integration Plan, developed by Price Waterhouse in November 1991; approved by HUD's IRM Planning Board Nov. 12, 1991.			
19.	U.S. Department of Housing and Urban Development, <i>Financial Systems Integration Plan, September 1993</i> .			
20.	U.S. Department of Housing and Urban Development, <i>Reinventing HUD</i> <i>Presidential Performance Agreement</i> <i>Reorganization</i> <i>Strategic Performance System</i> <i>HUD-Community Partnership</i> (No Date) The discussion of the Strategic Performance System includes the creation of a Management Committee under the Deputy Secretary consisting of the Chief of Staff, Assistant to the Secretary for Field Management, the Inspector General, the General Counsel, the Program Assistant Secretaries, the Chief Financial Officer, and the Assistant Secretaries for Administration Legislative Affairs and Policy Development and Research. The Management Committee will oversee the development of Management Plans and create an integrated management oversight structure for the Department. It will strengthen the Department's planning and execution of significant management decisions, including staff allocations and approval of funding for systems development activities. The Committee will also ensure integration of management planning into all significant policy decisions throughout the strategic planning cycle.			
21.	U.S. Department of Housing and Urban Development, <i>System Development Methodology, Release 5.0, September 1992</i> .			
22.	<i>Ibid.</i>			
23.	HUD Handbook No. 2144.01, REV-3, October 1991 covers the Resource Allocation Guidelines System (RAGS). Of 178 RAGS described in the handbook, 97 have demand type workload indicators, 77 have inventory type workload indicators, and 4 have no workload indicators. Demand type indicators generally measure the number of work units accomplished; often the work units are not uniform in their staff requirements, e.g., analyses performed, memoranda prepared, etc., but they at least represent approximate measures of work accomplished. Inventory type indicators measure the number of items on hand as of a point of time or on average over a period of time, e.g., number of active grantees, number of loans in inventory, number of properties in inventory, etc., but do not measure the HUD staff activities associated with monitoring, maintaining, or servicing the inventory items.			

24. HUD Handbook No. 2140.5, REV-12, October 1991, covers the Employee Time Reporting System (ETRS). It covers most regional and field office employees except for employees of the Office of Inspector General.
25. For example, the justification for fiscal year 1994 included 5149.0 full time equivalent (FTE) regional and field staff in support of Housing programs and activities. The total staff need included in the justification (based on standard unit costs and projected workload) was 6,871.5 FTE; this was reduced by "staff management adjustments" totalling 1,722.5 FTE to reach the staff level included for Housing within the overall HUD budget submission. Because of questions concerning the level of confidence which can be placed in the reasonableness of standard unit costs and the questionable utility of many of the workload indicators, the indicated shortfall may or may not be a reasonable indication of the magnitude of staffing shortages.
26. HUD Office of Inspector General report 93-HQ-169-0005. *Limited Review of HUD's Management and Control of Staff Resources*, March 8, 1993.
27. Precise information is not available on the extent of the increase. HUD Salary and Expense (S&E) budget information shows that funds for budget object class 25, Other Services, which would include such contracting, increased from about \$48 million in fiscal year 1980 to a peak of about \$145 million in fiscal year 1992; about \$134 million was estimated for fiscal year 1994. Much of the contracting in support of FHA's mortgage insurance programs is, however, funded directly from the mortgage insurance funds rather than from the S&E appropriation. According to HUD budget information, contracting funded by the mortgage insurance funds for the 8-year period from fiscal year 1984 through fiscal year 1991 amounted to about \$225 million. For fiscal years 1992 and 1993 it amounted to about \$120 million and \$108 million, respectively. For fiscal year 1994, it is estimated to amount to about \$152 million; for fiscal year 1995, \$179 million.
28. U.S. Department of Housing and Urban Development, *Secretary's Report on Departmental Service Contracts*, June 30, 1993.
29. *Comparison of Costs of HUD Staff versus Delegated Processing of Multifamily Mortgage Insurance Applications*, June 7, 1993, prepared by the Management and Budget Division, Office of Administration, HUD Region VI. This analysis concluded that for a section 223(f) project it would cost HUD \$15,275 to process an application in-house compared to \$33,171 for delegated processing; for a section 221(d) project, the comparison was \$22,585 versus \$38,598. The cost of contracting included the costs of HUD monitoring and reviewing the contractors' work.

A conclusion in a later report by the HUD Inspector General (Report 93-HQ-115-0018, *Audit of the Delegated Processing Program*, September 30, 1993) was that HUD field offices were expending already limited staff resources on the review and reprocessing of unacceptable work submitted by delegated processors.
30. An analysis furnished to NAPA staff by HUD's Office of Budget shows that in constant dollars (1987 base), HUD's travel funds decreased by more than 50 percent between fiscal years 1980 and 1992, from about \$24.6 million to about \$12.2 million.
31. *Resource Management and Allocation Process* (draft), Office of Budget, July 30, 1993.
32. *Creating A Government That Works Better and Costs Less, Report of the National Performance Review*, September 7, 1993. The NPR recommendation for a 1,500 FTE reduction in HUD staffing is part of its goal of reducing the federal work force by 252,000 over the next few years through the reinvention efforts it espoused. This goal, to the extent it is translated into specific reductions in staffing levels independent of the results of reinvention initiatives, appears to be in some conflict with

NPR's assertion that Congress and the Executive should control dollars through the budget process rather than impose direct controls on the number of personnel (page 19 of report).

33. Briefing materials for HUD meeting with OMB officials, October 13, 1993.
34. Office of Personnel and Training Quarterly Remote Indicators Report dated November 9, 1984.
35. The headquarters occupations used are:

301	General Administrative
334	Computer Specialist
343	Management/Program Analyst
501	General Finance/Accounting Specialist
510	Accountant
511	Auditor
1101	General Business
1165	Loan Specialist
1811	Investigator

The regional and field office occupations used are:

301	General Administrative
334	Computer Specialist
340	Program Management
343	Management/Program Analyst
360	Equal Opportunity Compliance
510	Accountant
511	Auditor
801	General Engineer
828	Construction Analyst
1101	General Business
1102	Contract and Procurement
1160	Financial Analyst
1165	Loan Specialist
1170	Realty Specialist
1171	Appraiser
1173	Housing Management
1811	Investigator

36. As of the end of fiscal year 1993, 10.07 percent of the full time permanent staff were eligible for optional retirement and 18.82 percent were eligible for early retirement.
37. Other examples of high retirement eligibility are 58 percent of the engineers in Region III; 50 percent of the loan specialists in Region I; 50 percent of the realty specialists in Region X; 58 percent of the general business staff in Region VI and 52 percent in Region IV.
38. As the HUD training data system provides information on the number of training incidents of eight hours or more, it is not possible to specify the number of different staff members who received training in any one fiscal year or over the past four fiscal years.
39. *Interim Report from the Secretary's Task Force on Departmental Training*, May 1993, lists a number of previous reports which have cited training deficiencies (see pages 11 and 12).

40. *Interim Report from the Secretary's Task Force on Departmental Training*, May 1993.
41. \$1.5 million was added to the training budget to purchase satellite receiving dishes for the 55 largest field offices. This was over the \$5.3 million discussed above.
42. In its draft report, the task force made 24 recommendations; 16 on performance management and 8 on incentive awards.

The draft report states that the task force's answer to what a performance management system should do led to the identification of four themes that guided the work of the group. These themes are: fairness; accountability and responsibility; improved training and communications; and motivation.

The major performance appraisal recommendations in the draft report are:

Establish a single system for all staff except SES.

Use two rating levels—Meets Requirements and Does Not Meet Requirements. (Five levels are now used.)

Change the appraisal cycle to February 1 to January 31. (The cycle is now the fiscal year.)

Require two progress reviews each year, one in June and one in October. (One is now required.)

Require second-level review for progress reviews and ratings and eliminate review by the organization head.

Limit the number of critical elements for which performance standards are developed to no less than three and no more than seven. (There are no numerical limits in the current system.)

Establish performance standards for three groups of critical elements for the Meets Requirements level:

- 1) The first group would include one or two generic elements for all employees regardless of grade. These standards would address interpersonal relations in the workplace and would be developed by representative national committees.
- 2) The second group would be occupation based, addressing the common tasks of staff in the occupation, and would include workload assumptions. They would be developed by each assistant secretary.
- 3) The third group would be optional to deal with unique local workload or clientele situations. These standards would be developed in the individual work units and approved by a second level supervisor.

Give subordinates the opportunity to provide input into their supervisor's ratings, especially on the standards in the first group that address interpersonal relations in the workplace.

Require no narrative support for a Meets Requirements rating. A rating or progress review of Does Not Meet Requirements, must be documented.

Provide joint training to employees and supervisors on the performance management system.

Establish a labor/management national Performance Management Council to review the operation of the system and make recommendations for needed change.

The task force also made a number of recommendations related to pay and incentive awards, including:

All employees rated at the Meets Requirements level would receive an annual performance increase. This would replace the current within grade increase system with its 1-, 2- and 3-year waiting periods. Annual performance increases would be equal to a whole, half or third of a current step increase depending on the employee's position in the salary table. (Currently, nonsupervisory staff rated outstanding are entitled to a Quality Step Increase or a performance award.)

The incentive awards system would not be linked to the performance appraisal system except to require a Meets Requirements rating.

There are two major problems with the HUD task force recommendations:

It is a case of form over substance. The proposals will require considerable time and effort to develop standards and evaluate staff, and no clear statement of the purpose to be served by the appraisal process is provided.

The proposed performance standards process ensures that the standards will be irrelevant to most employees. Generalized standards, not tailored to the individual work situation, can be no more than statements of good intentions.

According to HUD, the task force was reconvened and a report, including recommendations for an interim system that is feasible within current law, was submitted in April 1994.

43. *Performance Appraisal on the Line*, Devries, Morrison, Shullman and Gerlach, John Wiley and Sons, 1981.
44. *Creating a Government That Works Better & Costs Less*, Report of the National Performance Review, September 1993
45. *Final Report and Recommendations*, HUD/MOD Rehab Investigation Subcommittee, Senate Committee on Banking, Housing, and Urban Affairs, November, 1990.
46. Proof of political motivation of appointments is of course very difficult. A number of analyses were conducted to determine if there were patterns indicative of such practices. Staff analysis of a variety of data failed to develop evidence of partisan political appointments in the career service:

staff at the senior grade levels, in headquarters and in the regions, have for the most part long federal service;

HUD reports that, in the period July 1989 through December 1993, there have been only twenty appointments of Schedule C staff to career service positions;

a GAO review indicates that the number of political positions in HUD declined by a third between 1983 and 1991; the number of Schedule C positions declined 36 percent; the number of non career SES positions declined by 23 percent; and government-wide there was no significant change in the number of political positions during this time period;

an OPM investigation of HUD's examining unit found no evidence of political manipulation;

OPM reported that the application of merit principles was apparent and nonmerit factors were never considered;

review of staffing data shows that there are only two field offices where the senior staff member in the occupational series in which the manager is classified (340) has less than five years of federal service.

Of course, the motivation to take a specific personnel action may be political. However, the investigation which would be needed to establish such motivation was beyond the scope of this study.

The recent amendments to the Hatch Act, allowing greater political activity by federal employees, will potentially create an even greater problem for HUD in this regard. Staff who actively support a candidate and are promoted will very likely be perceived by fellow staff members as being rewarded for their political support.

CHAPTER SIX**SUSTAINING MANAGEMENT LEADERSHIP AND
A LONG-TERM INSTITUTION-BUILDING AGENDA**

The preceding chapters have described the considerable organizational and management challenges facing HUD, discussed initiatives underway and planned to address these challenges, and presented the panel's recommendations for responding effectively to each of them. This chapter looks to the long term and what is needed to sustain all of these efforts. It builds on the panel's principle that *the lengthy timeframe needed for substantive organizational change demands sustained leadership, a comprehensive strategy, and the incentives to support it.*

Institution-building takes longer to complete than a single presidential term or the typical tenure of departmental leadership in the federal government, especially when the tasks are as complex and far-reaching as those required at HUD. Effective longer term leadership requires the engagement of both political and career executives.

The Academy panel believes the most effective political leader is one who shares power, working as part of a dynamic team composed of political and career executives as well as rank-and-file employees, and who builds strong career leadership able to respond to the varying demands of diverse communities over time. A cadre of able career leaders also strengthens the institution's ability to respond to the priorities of any political team as well as to the laws enacted by Congress.

HUD needs strong leadership. Political executives generally concentrate on providing policy leadership, but they can--and should--also create the environment and take the steps needed for the career leadership to flourish as well. The panel sees the Cisneros team as strong on vision and action, but insufficiently attuned to either the institutional requirements to sustain the management initiatives they have launched or the development of strong leadership in the career service at the local level where HUD's work is done.

The panel challenges the secretary and his team to develop a management agenda for the longer term and build a leadership team that will survive their own tenures in office. These are the people, along with the Cisneros team's successors, who will complete the work they have started on building an institution that will remain their legacy for years to come.

In this chapter, the panel turns first to the requirement for a long-term institution-building agenda, one with designated milestones, performance measures, and specific timeframes for its accomplishment. This section is followed by discussion of the imperative for a focal point--an under secretary for management--to take responsibility for implementing the agenda and building an able team of career executives, and a process for thinking and acting strategically. Incorporated in this discussion and the panel's recommendations is the need for accountability for carrying out the agenda, and Congress's role in ensuring that the job gets done.

To set the stage, the panel describes its concept of institutional capacity and how this concept can be used to assess HUD's status in the institution-building process.

THE CONCEPT OF INSTITUTIONAL CAPACITY

The NAPA panel defines "institutional capacity" as the totality of the major elements or attributes--the capabilities, skills and resources--that one would expect to find in an effectively functioning cabinet department or major independent agency of the federal government. They include: mission and vision, leadership, policy formulation and implementation, workforce, and management systems. These elements and their attributes are listed in Table 6-1 below.

TABLE 6-1

ELEMENTS OF INSTITUTIONAL CAPACITY

ELEMENT	ATTRIBUTE
MISSION AND VISION	<p>A clearly understood and compelling agenda</p> <p>Strong legislative charter</p> <p>Constituent support and taxpayer acceptance</p>
LEADERSHIP	<p>Capable political executives</p> <p>Strong senior executive service corps</p> <p>Good working relationships among all executives</p>
POLICY FORMULATION	<p>Appropriate stature vis-a-vis the White House and OMB, Congress, other cabinet departments, interest groups, and the general public</p> <p>Capacity to foresee emerging issues and respond in a political context while also meeting the needs of its statutorily designated clients and customers</p> <p>Capacity to formulate a doable and politically supportable agenda acceptable both internally and externally</p>
ORGANIZATION	<p>Appropriate size and location in government, given the mission and statutory charter</p> <p>Headquarters units (bureaus, administrations, etc.) with clear lines of accountability and authority and constructive, effective relationships among the units</p> <p>A field structure appropriately connected to the headquarters units, other federal field staffs, state and local governments, etc., and capable of providing efficient and effective service delivery</p>

ELEMENT	ATTRIBUTE
<p>WORKFORCE</p>	<p>Sized consistent with the mission and agenda</p> <p>Built around equal opportunity principles</p> <p>Motivated by a sense of mission and accomplishment</p> <p>Trained to handle the tasks assigned effectively</p> <p>Developed to provide a range and breadth of experiences, particularly for those advancing to supervisory, management, and executive positions</p> <p>Deployed where the work needs to be done and given both the authority and resources to accomplish the mission</p>
<p>POLICY IMPLEMENTATION</p>	<p>The needed resources marshalled and applied</p> <p>Efficient and effective delivery systems developed and maintained</p> <p>Appropriate relationships with suppliers, customers, contractors, other federal agencies, state and local governments, etc., created and maintained</p> <p>Unanticipated events responded to promptly and effectively as they arise</p> <p>Instances of waste, fraud, and mismanagement kept at acceptably low levels</p> <p>Appropriate feedback mechanisms in place to know results being achieved and course corrections needed</p>
<p>MANAGEMENT SYSTEMS</p>	<p>Planning, budgeting, and evaluation functions in place to support missions and programs</p> <p>Human resources management-recruiting, training, assignment, employee evaluation, and the like-given high priority and adequate funding</p> <p>Financial management system that supplies accurate and timely data to support program management and provides auditable financial statements for the department</p> <p>Information resources management and systems integration efforts that take full advantage of modern technology and provide data useful at all levels of the organization</p> <p>Procurement and grants/contracts management practices that respond to program needs, keep costs low, and maintain organizational integrity</p>

This concept of institutional capacity outlines the entire system of a well-functioning organization. It represents the panel's vision toward which it believes the department should be striving through development and implementation of a long-term management agenda.

It is important to note that few federal organizations have all of these elements. To an extent, these elements describe the "ideal" organization. The list provides points of reference to departmental executives for assessing their own management improvement initiatives and

policy directions. It also identifies the totality of elements that the top management team needs to consider if their goal is to make HUD an effective, respected institution of government.

The NAPA panel has not attempted to rank or grade HUD based on these elements. Clearly, the department is stronger now on the leadership dimensions than during most of its existence. Making HUD into the kind of organization outlined on the list is obviously work in progress. And HUD officials would acknowledge that management systems need a lot more attention and investments before they fully meet program needs.

THE KEY TO BUILDING AND MAINTAINING THE INSTITUTION: A LONG-TERM AGENDA

HUD's reorganization and other initiatives, such as the Strategic Performance System, are aimed at streamlining the department, clarifying accountability, and improving the overall performance of the department. It is not yet clear, however, that coordination and integration of these initiatives are sufficient to make HUD an institution that performs acceptably in the future. Moreover, HUD has little assurance that either the White House or Congress will provide the needed support for implementation over the sustained period required.

The Institution-Building Agenda

The policy and management initiatives of the administration and Congress will have little value to the people to be served, and taxpayer dollars will continue to be at risk unless HUD creates a long-term institution-building agenda and a focal point to implement and track it. The panel has concluded that HUD must have such an agenda. The White House and OMB should endorse it and provide sustained support as well. HUD's congressional authorizing and appropriations committees also must support this agenda. Key elements of the agenda are:

- **Strong and sustained leadership for HUD** at headquarters and in the field. The department will function best if its leadership builds a cadre of career executives to implement its programs, respond to challenges and commitments now facing the department, and work cooperatively with local communities.
- **An assured supply of new staff talent.** As noted in Chapter Five, HUD has done little in the past 15 years to recruit new staff. Staffing levels have been driven primarily by budget considerations. Too few younger, well-trained staff are available to replace an aging work force.
- **A focus for administration and management** that emphasizes continuity in leadership, systems, and organizational principles. The chief operating officer needs a strong right arm, an under secretary for management and dedicated career staff, to provide continuing attention to building and maintaining the department.
- **Change in culture** from reactive to proactive, from defensive to offensive. Many people in and outside HUD interviewed by NAPA staff spoke of the HUD staff's

"gotcha mentality."¹ HUD staff must continue their fiduciary roles, but they also need to work with communities to achieve positive results.

- **Effective and stable core management systems:** information management, human resources management, and financial management. Building such systems will be a complex, long-term effort that cannot be carried out independent of other general management functions or program management.
- **A process for thinking and acting strategically** to ensure alignment between the department's vision, values, goals, and legislative reforms.

The secretary will need to obtain concurrence on this agenda from the Executive Office of the President, primarily OMB, and HUD's congressional committees. If this commitment to renew HUD is to have any chance of succeeding over a five- to 10-year period, these players in HUD's political lifeline must be vested in that agenda. One approach that should be explored is to have this multi-year agenda for renewing HUD be affirmed as a public commitment through a concurrent resolution enacted by Congress.

The March 1994 Presidential Performance Agreement with HUD includes as one of six objectives to "create an environment that supports teamwork and organizational excellence." The goal is to "eradicate significant numbers of duplicative, inefficient and wasteful management practices, and to increase the satisfaction of HUD's customers . . ." The agenda articulated above and the recommendations in earlier chapters of this report would provide a solid foundation for achieving this objective.

This or a similar agenda should be articulated by the secretary. Responsibilities for implementation should be assigned to specific individuals, and milestones established. Periodic reports should be provided to the secretary, the president, and Congress, using output and outcome measures similar to those in the Presidential Performance Agreement.

The panel emphasizes that the agenda would be updated periodically to take account of changes in program emphasis, the evolution of community needs, and advances in technology that offer additional opportunities to improve operations. On this last point, the panel believes that government is just beginning to realize the potential of information technology demonstrated during the past several years in the private sector. HUD is no exception. Modifications inevitably will be needed in any long-term agenda during a period of such rapid change. The key is to make such modifications in ways that preserve continuity where needed to bring important initiatives to closure.

¹ One regional administrator interviewed by the NAPA staff used a baseball analogy to describe the challenge of changing the culture. He said: "Employees are rated, promoted, and they advance in HUD based on their "fielding percentage." Instead, HUD needs to reward employees based on their "batting average." For the former, the number of errors is low and the number of chances properly fielded is high. However, this is the defensive part of the game. Fielding only prevents bad things from happening. The batting average, even for the good hitter, reflects "success" only about one-third of the time. Yet, when a hitter connects, the result is positive. HUD needs to look more at the employee's batting average, i.e., the risks taken and the successes achieved in developing and managing projects. Right now there are too many rules and too much oversight, and thus too much emphasis on the fielding percentage."

Conclusions and Recommendations

The NAPA panel believes that the initiatives announced by the HUD secretary on March 3 provide a useful starting point for establishing an institution-building agenda. However, the three-year time horizon specified in the Presidential Performance Agreement (the time remaining in the president's term of office) is not long enough to change the culture and build an effectively performing department, given the time most experts believe is required and the department's current condition. In addition, the institution-building agenda should be clearly identified and made distinct from policy or program priorities.

The Academy panel recommends that HUD:

- ◆ Articulate a comprehensive, *five-year agenda* for building and maintaining the department's capacity to fulfill its mission.
- ◆ Build on the external commitments in the Presidential Performance Agreement to vest interest in achieving this agenda in OMB and Congress.

THE LEADERSHIP NEEDED TO CARRY OUT THE AGENDA

There are two key elements in providing the leadership for carrying out the long-term agenda. The first is clarification and consolidation of responsibility for developing and carrying out the agenda. The second is continuity. Sustained management competence and continuity are *vital* to building and maintaining an effective department. Without it, the discipline required to stay the course in rebuilding HUD will not be present.

Under the current arrangement, there is no guarantee--in fact, if history is any guide, there is little likelihood--that this competence and continuity will be achieved for the period required to make HUD an effective organization with the capacity to match its policy agenda.

Fragmented Management Leadership: Not Unique to HUD

One can think of management in a department such as HUD as falling into two categories: program management and administrative management. The former is carried out by the secretary, the program assistant secretaries and their staffs, and the field office staffs. The latter consists of a variety of tasks, including planning, budgeting, human resources management, financial management, and information resources management. These tasks are carried out at headquarters--primarily but not exclusively under the direction of the assistant secretary for administration (ASA)--and in the field by the various administrative staffs in the regional and field offices.

More than 40 years ago, the first Hoover Commission identified principles for creating an effective federal government. Among them were the importance of relating functions to

mission and the need to consolidate administrative management functions under a tenured assistant secretary for administration. HUD would not rank high today on a measure of either. The department is not unlike its counterparts when it comes to structuring its management functions.

Initially, many departments consolidated the administrative management functions under an assistant secretary for administration, and some career assistant secretaries were effective in this role. Federal departments, including HUD, have since moved in other directions. In HUD, the ASA, according to the organization handbook, "advises the Secretary on all matters relating to administrative management of the department and advises other Assistant Secretaries and Principal Staff concerning the management and administrative aspects of their responsibilities." In practice, several other HUD officials have influential roles. For example, guidance for major financial systems development has effectively moved from an office under the ASA to the chief financial officer who operated within the context of the Systems Integration Steering Committee chaired by the deputy secretary. Also, several years ago, when the inspectors general were created, the audit function was transferred from the ASA to the Office of the HUD Inspector General.

Over the years, Congress and the executive branch have established special positions to deal with specific management functions perceived to need special attention. These include procurement executives, information resources management officials, human resource managers, chief financial officers, and the like. Some of these functions have been absorbed by assistant secretaries for administration, as in HUD, but others are carried out by separate officials either designated by statute or assigned administratively. In the most recently established cabinet department, the Department of Veterans Affairs (VA), six presidentially appointed assistant secretaries fill the roles formerly played by a single career assistant secretary.

In recent months, the Clinton administration has taken action to shore up the management focus in federal departments. This provides a start--but only a start--toward building HUD's management leadership.

The Chief Operating Officer Concept and Its Place in HUD

The administration's NPR team recognized the importance of internal management leadership by recommending that every cabinet department and independent agency designate a senior-level official as chief operating officer (COO). The September 1993 NPR report said:

- Transforming federal management systems and spreading the culture of quality throughout the federal government is no small task. To accomplish it, at least one senior official with agency-wide management authority from every agency will be needed to make it happen.¹

The vice president has acknowledged that transforming the federal government is a long-term proposition, taking as much as 10 years to complete. The NPR report does not, however,

contain any guidance on how the government can sustain management reform agendas beyond the usual tenures of presidential appointees--about two years--or the four-year term of a president.

Responding to the NPR recommendation, President Clinton established COOs across government by memorandum dated October 1, 1993. These COOs must be political officials with department-wide responsibilities above the assistant secretary level. They are charged with implementing the NPR recommendations through a President's Management Council (PMC) composed of the COOs and chaired by the OMB deputy director for management. Otherwise, their duties are defined as:

- (A) Implementing the president's and agency head's goals and the agency mission;
- (B) Providing overall organization management to improve agency performance;
- (C) Assisting the agency head in promoting ongoing quality improvement, developing strategic plans, and measuring results;
- (D) Directing ongoing re-engineering of the agency's administrative processes;
- (E) Overseeing agency-specific application of performance measures, procurement reforms, personnel reductions, financial management improvements, telecommunications and information technology policies, and other government-wide systems reforms adopted as a result of the recommendations of the National Performance Review; and
- (F) Reforming the agency's management practices by incorporating the principles of the National Performance Review into day-to-day management.²

When NAPA staff asked OMB officials what COOs will do, they were told that COOs have been tasked with defining their own roles. They have begun to do so through the PMC.

At HUD, Deputy Secretary Duvernay is the COO. NAPA staff were told that no formal expectations have been set by the secretary, and he functions no differently from before the COO positions were established. The deputy secretary said he is responsible for the day-to-day operations of the department. He also coordinates field operations and deals with issues cutting across the jurisdictions of program assistant secretaries, including the departmental reorganization. His immediate staff is quite small--only a few special assistants and personal aides. Under the Strategic Performance System announced in March 1994, the Management Committee, chaired by the deputy secretary, will "strengthen the Department's planning and execution of significant management decisions, . . . ensure integration of management planning into all significant policy decisions throughout the strategic planning cycle, . . . [and oversee] audit resolution, management controls, and performance in accordance with the Presidential Performance agreement."³

An Under Secretary for Management Needed

Plans are only as good as the leaders who develop them and commit to their fulfillment. Strong and sustained leadership is essential to ensure the sustained attention needed for building and maintaining HUD's institutional capacity. While the deputy secretary, as COO, has been assigned this responsibility, the incumbent has department-wide policy and operational responsibilities that place competing demands on his time for capacity building. Given the limited tenure of persons filling this position, about two years on average at HUD, there also is a question as to whether any deputy secretary will be in office long enough to see the plans fully implemented. The risk is that new political leadership will be tempted to start over again if there is widespread perception that HUD's problems have not been resolved.

In its 1984 general management review report on HUD, GAO pointed to the need for strong and sustained management leadership and recommended that the secretary develop a department-wide planning system that established accountability and undertook planning as an important function, not just a component of the budget system. GAO also recommended three options for providing sustained management leadership at HUD, including an under secretary for management.⁴ HUD did not adopt any of these options and, until recently, no one other than the secretary and the deputy were responsible for building and maintaining HUD's institutional capacity.

The NAPA panel believes a new position needs to be established, that of a HUD under secretary for management. While this person would be nominated by the president and confirmed by the Senate, clear expectations should be established that the incumbent would remain in office for an extended period. The position should be established by statute, and Congress should specify in the law that one purpose in creating this position is to encourage and promote continuity. Experts on private-sector transformations talk in terms of six to eight years. With this imperative in mind, the Academy panel considered recommending that an under secretary for management serve under a six-year tenured appointment, similar to the ten-year term for the FBI director or the four-year term for the director of the Office of Personnel Management. In the last analysis, though, the panel recognized that any person in this position would need the support of the secretary as well as the president to be effective. Nevertheless, it is the panel's intent that the long-term institution-building agenda be focused in this position, and that this person, along with the secretary and the deputy secretary/COO, be held accountable for its fulfillment. It should be mutually understood by all parties that this appointment will be for at least four years, subject to satisfactory performance by the incumbent. Committee report language could reinforce this expectation by stating that: (1) the incumbent should not automatically depart with a change in either the administration or the secretary; and (2) this should be considered a long-term appointment. As with the inspectors general, the administration could be required to notify Congress of the incumbent's departure.

To help ensure a person with the right qualifications is appointed as HUD under secretary, Congress should incorporate in the law a statement of qualifications for this position similar to those now in law for the inspectors general and certain positions in the VA. Key among the qualifications would be prior experience in managing a large organization, preferably in government.

The panel sees this position as roughly parallel to many high-performing city managers who remain in office even through changes of local political leadership. The HUD under secretary could serve successive secretaries and even presidential administrations as long as he or she is prepared to come to terms with the policy agenda of new leadership while continuing to carry out the management agenda.

Four years ago, Congress recognized the need to strengthen government-wide management leadership by establishing a deputy director for management in OMB as part of the reforms enacted in the Chief Financial Officers Act of 1990. This new deputy director was made responsible for procurement, financial management, information and regulatory affairs, and (until recently) general management. Formerly, most of these functions were carried out by presidentially appointed, Senate-confirmed administrators reporting directly to the OMB director. Now these officials report through the new deputy. The goal was to provide a more integrated approach to cross-agency management initiatives. An under secretary for management could play a role in HUD similar to the one envisioned by Congress for the OMB deputy director for management.

The under secretary, with guidance from the secretary and deputy secretary/COO, would implement the long-term institution-building agenda and coordinate the department's administrative management activities, such as financial management, procurement, and information management. Support for the under secretary should be provided by a strong (but not necessarily large) career staff, possibly headed by a career deputy under secretary--one of the options proposed by GAO in 1984. Field office and headquarters program staff could be provided rotational assignments to the under secretary's staff as part of their executive training and development.

One of the under secretary's high priorities would be to build a strong career executive corps. This corps, along with the career staff supporting the under secretary, will help provide the needed competence and continuity for the full period required to implement the institution-building agenda.

The Academy panel recommends that HUD:

- ◆ **Develop legislation which would provide continuity of leadership by establishing an *under secretary for management* and requiring that the individual in this position be appointed by the President and subject to Senate confirmation with qualifications to manage a large public organization set forth in the law. Like the inspectors general, Congress should be notified on removal of any incumbent in this position.**
- ◆ **Assign responsibility for implementing elements of the agenda to specific individuals or groups under the leadership of the COO, working with the under secretary for management.**
- ◆ **Provide a career staff to support the work of the under secretary.**

Additional views of Academy panel member, Alan Dean:

- ◆ I strongly support the establishment of the post of under secretary for management in HUD. In 1971, the President recommended that a proposed Department of Community Development (DCD) (which would have superseded HUD) have an under secretary for management, organization, and systems. The House Committee on Government Operations, in favorably reporting the DCD legislation, supported this feature of the reorganization.
- ◆ I firmly believe that the panel's recommendation for an under secretary for management will foster continuity and competence in matters relating to the internal management of HUD. There are, however, two presidentially appointed, Senate-confirmed (PAS) positions concerned with departmental administration already in existence in HUD, namely, the assistant secretary for administration (ASA) and the chief financial officer (CFO). It would be consistent with the thrust of the panel's report to return the ASA to career status, as was originally provided in the Department of Housing and Urban Development Act of 1965. The CFO should be selected on the basis of professional qualifications and with an expectation that the incumbent would serve much longer than is likely in the case of PAS officials. These objectives can best be realized by according the CFO career status.

THE CONGRESSIONAL ROLE IN CAPACITY BUILDING

Chapter Three of this report called for HUD to submit to OMB and Congress a proposed recodification of HUD's programs and activities. Congress needs to consider and respond promptly to this proposal. Similarly, Congress--its authorizing and appropriations committees--must be an active partner in building HUD's institutional capacity. It needs to enact legislation, provide the funds, oversee the development and implementation of the five-year agenda, and give HUD leadership sufficient leeway to make some mistakes along the way and provide for needed course corrections.

The Academy panel recommends that Congress:

- ◆ **Endorse the five-year institution building agenda for HUD.**
- ◆ **Enact legislation establishing an under secretary for management in HUD and incorporating a statement of qualifications for this position.**
- ◆ **Require the HUD secretary to develop an action plan for the coming year and report progress during the preceding year on implementing the multi-year agenda. (The plan could be provided with the department's annual budget justification.)**

- ◆ **Institute an annual review process, through congressional hearings, to assess progress toward achieving the capacity-building agenda. A foundation for the hearings could be provided through an annual assessment by an independent organization, such as the General Accounting Office, or updates of this report by NAPA.**
- ◆ **Following an assessment of the action plan and articulation of any changes believed needed in the plan, provide the funding needed to carry out the plan.**

A PROCESS FOR THINKING AND ACTING STRATEGICALLY

The NAPA panel and staff found that, until recently, HUD had no means, other than the budget process, to manage comprehensively and strategically against department-wide goals or to relate information systems development to a strategic vision of where the department was headed or how programs would be managed in the future. There was no means to translate the secretary's vision, goals, priorities, and strategies into actions that would result in the delivery of services by the field consistent with a community-based approach espoused by this administration.

The panel believes that thinking and acting strategically begins by listening--to clients, customers, providers, and state and local governments. This is the foundation for effective partnerships with local communities. Developing the customer service plans required by executive order provides one the means to listen and respond.

In 1993, Secretary Cisneros and his team developed and published *Creating Communities of Opportunity: Program and Management Plan*, which provided an initial plan covering fiscal year 1994. It laid out a series of program and administrative priorities and timelines for achieving them. On March 3, 1994, the secretary announced a Strategic Performance System which includes many of the elements the panel believes are necessary to ensure accomplishment of the administration's agenda and statutory requirements. This system is built on the Presidential Performance Agreement with the secretary that sets out six basic goals and the measures against which performance will be assessed during fiscal year 1994. The agreement reflects the major objectives developed by the secretary to be achieved over the next three years. The various elements of the system are summarized in Table 6-2.

Creating Communities of Opportunity and the Presidential Performance Agreement express HUD's goals and priorities for the near term. However, HUD's strategic thinking should center on developing and implementing a consolidated and simplified legislative charter recommended in Chapter Three. The recently announced Strategic Performance System provides the platform for a strategy to develop and achieve enactment of this legislation.

**TABLE 6-2
HUD STRATEGIC PERFORMANCE SYSTEM ELEMENTS**

Action Date	System Element
Oct. 1993	First-year priorities: program and management plan
Dec. 93 & Mar. 94	Reorganization announcements
March 1994	Presidential Performance Agreement and HUD assistant secretary agreements
Mar. 31, 1994	Resources Management Plan
April 30, 1994	Management Plans by program assistant secretaries and support programs
May 31, 1994	Management Plan performance reports
Sept. 30, 1994	Department-wide customer service plan
Oct. 31, 1994	Department-wide performance report on progress towards goals in Presidential Performance Agreement
Ongoing	Budget process - Align budget structure with priorities
Ongoing	Legislative and policy development - Guided by strategic framework

Especially because of its disparate and changing programs, HUD needs a disciplined mechanism to develop and promulgate a departmental mission statement, vision, goals, priorities, and strategies. These broader views then need to be translated into meaningful operational and implementation plans, as well as budgets and program services that support the objectives of the department in its efforts to meet the needs of the nation's communities.

The Strategic Performance System does not adequately address the need for expressing the business strategies of program organizations, integrating them into the overall departmental priorities or translating them into program operating plans, field implementation plans, and various support plans needed to drive budgets in a strategic manner.

HUD should mandate the inclusion of program business strategies in the program management plans identified in the framework for the Strategic Management System. These strategies are necessary to provide for the Information Strategic Plans identified in the performance system.

The Academy panel recommends that HUD:

- ◆ **Expand the initial Strategic Performance System framework to add provisions for developing, enacting, and implementing**

comprehensive legislation and for preparing program business strategies, program operational plans, field implementation plans, and support program plans (in addition to information strategic plans).

- ◆ **Ensure, through the Management Committee chaired by the deputy secretary, that HUD implements the Strategic Performance System by holding the program assistant secretaries accountable for completing program business strategies and information strategic plans in fiscal year 1994. Program operational planning, field implementation planning, and support planning (other than ISPs) should be completed no later than fiscal year 1995.**

The Academy panel is not recommending a process for thinking and acting strategically that goes beyond an enhanced version of the Strategic Performance System announced in March. The department has never had a comprehensive planning system, and efforts to develop such systems elsewhere in government have rarely been fully successful. A top-down, formal planning system also could inhibit field-level flexibility and responsiveness to the needs of local communities. While the Government Performance and Results Act mandates the eventual adoption of strategic plans throughout the federal government, the panel believes an enhanced Strategic Performance System, coupled with business strategies prepared by the program assistant secretaries, should position HUD to meet the requirements of this new law.

Endnotes: Chapter Six

1. *Creating A Government That Works Better and Costs Less, Report of the National Performance Review*, September 7, 1993.
2. Memorandum from the President, October 1, 1993.
3. U.S. Department of Housing and Urban Development, *Reinventing HUD* (Washington, DC, March 1994), p. 32.
4. *Increasing HUD's Effectiveness Through Improved Management*, GAO, January 10, 1984.

APPENDIX A

**Memorandum of Understanding Between
The Department of Housing and Urban Development
and the
National Academy of Public Administration**

July 1993

In order to assure maximum benefit from the work Secretary Cisneros has initiated at HUD and from the management study NAPA has underway in fulfillment of a statutory mandate, the following understanding has been reached:

1. INDEPENDENT MANAGEMENT ASSESSMENT BY NAPA

Secretary Cisneros has given a high priority to "remedying inherited management deficiencies" at HUD. A Management Excellence Team under Assistant Secretary Marilyn Davis and a Data Systems Task Force under Deputy Secretary Terry Duvernay have been formed to attack these management deficiencies. Consistent with the secretary's initiative and in order for NAPA to meet the statutory mandate, HUD will provide briefings and other needed information to the NAPA project staff in order for NAPA to gain a full understanding of the problems and issues being addressed in HUD's management corrective action plans. NAPA's project staff will conduct additional interviews with HUD officials both in headquarters and in the field and conduct additional data collection and analysis so that it can provide an independent assessment of the work HUD is doing to meet system problems in human resources management, financial management and systems integration. NAPA will put its primary effort in this regard into the two areas of most concern to the appropriations committees--namely systems for staff estimating and allocation and the problems connected to the forecasting of section 8 contract renewal needs. In doing its work, NAPA is responsible for advising HUD on a timely basis of its views on HUD's corrective action plans. The objective here is to avoid duplication of effort while respecting NAPA's independence in being able to render an informed judgment on the nature and possible solutions to HUD's management system problems.

2. ORGANIZATIONAL REVIEW BY NAPA

The organizational review of HUD will address the following issues: (Based on the NAPA Panel's deliberation and after consultation with HUD, other issues may be added.)

- a) Headquarters-field relations, e.g., tracing delegations of authorities in terms of how they were intended to operate and how they are being exercised today.
- b) Program management issues between the program assistant secretaries and the regional administrators.

- c) How well management systems support program assistant secretaries, regional administrators and field office managers.
- d) Number and location of regional and field offices.
- e) Number and nature of statutory programs HUD administers and how they are organized within HUD.
- f) Relationship of HUD's field office structure to the communities they serve.
- g) Organizational impediments contributing to systems integration problems.

In accomplishing this organizational study it will be important for the NAPA project panel and staff to review HUD's mission, its place in the housing and community development system in our nation, and its program and organizational history in order to understand how these factors plus others, such as political leadership, have interacted to form the contemporary culture and environment in which HUD and its employees are a part.

APPENDIX B

BIOGRAPHICAL SKETCHES OF
ACADEMY PANEL AND STAFF**Academy Panel**

Feather O'Connor Houstoun - Chief Financial Officer, Southeastern Pennsylvania Transportation Authority (SEPTA). Former Treasurer and Chief Financial Officer, State of New Jersey; Executive Director, New Jersey Housing and Mortgage Finance Agency; Deputy Assistant Secretary for Policy Development (Acting), U.S. Department of Housing and Urban Development.

Alan L. Dean - Consultant. Former Vice President for Administration, U.S. Railway Association; Deputy Assistant Director, U.S. Office of Management and Budget; Assistant Secretary for Administration, U.S. Department of Transportation; Associate Administrator for Administration, Federal Aviation Administration.

Henry Gardner - Senior Vice President, Donaldson, Lufkin & Jenrette, San Francisco, California. Former positions with Oakland City, California: Assistant Personnel Analyst; Administrative Assistant; Assistant to the City Manager; Assistant City Manager; City Manager.

Jonathan B. Howes - Secretary, Department of Environment, Health and Natural Resources, State of North Carolina. Former Research Professor and Director, Center for Urban and Regional Studies, University of North Carolina; Mayor, Town of Chapel Hill; Director, Urban Policy Center, Urban America, Inc.; Director, State and Local Planning Assistance, U.S. Department of Housing and Urban Development.

John Parr - President, National Civic League. Adjunct Associate Professor, Graduate School of Public Affairs, and Former Director, Center for Public-Private Sector Cooperation, University of Colorado at Denver; Director, Colorado Front Range Project, Office of the Governor, State of Colorado; Special Assistant to the Governor, State of Colorado; and a licensed attorney.

Jacqueline Rogers - Secretary, Maryland Department of Housing and Community Development; 15 years with Montgomery County, Maryland, the last seven of which were as Director of the Office of Management and Budget; Faculty Member of the University of Maryland School of Public Affairs.

Barbara Sabol - Consultant. Former Administrator/Commissioner, Human Resources Administration, City of New York; Executive Deputy Commissioner, Department of Social Services, State of New York; Secretary, Department of Health and Environment, State of Kansas; Director, Office of Policy and Planning, Department of Human Service, Washington, D.C.; Chief, Office of Program Coordination and Review, Office of Human Development Services, U.S. Department of Health and Human Services.

Mitchell Sviridoff - Professor, New School for Social Research, New York. Former President, Local Initiatives Support Corporation; Vice President, Division of National Affairs, The Ford Foundation; Administrator, Human Resources Administration, New York City; Executive Director, Community Development, New Haven, Connecticut.

Joel D. Valdez - Vice President for Business Affairs, University of Arizona. Former City Manager, Assistant City Manager and Administrative Assistant, City of Tucson; Administrator, Detention Services, Juvenile Court, Pima County, Arizona.

PROJECT STAFF

Don I. Wortman - Project director. Fellow and former Vice President, National Academy of Public Administration; deputy director for administration, Central Intelligence Agency; acting commissioner and deputy commissioner, Social Security Administration; and associate director, Community Action, Office of Economic Opportunity.

Gregory J. Ahart - Senior research associate. Management consultant. Former official at GAO, served as assistant comptroller general for human resources, director of the Human Resources Division, and deputy director of the former Civil Division.

Kathleen A. Boland - Senior research associate. Executive director of the Center for Housing Policy. Former staff vice president for mortgage finance for the National Association of Home Builders, and director of the Maine State Housing Authority.

Benita C. Carr - Administrative assistant. Provides project and administrative support, including word processing and logistics for standing panels and related NAPA projects as well as for former Academy vice president.

Robert Greeves - Deputy director, Center for Information Management, NAPA. Former director of strategic planning, U.S. Department of Energy (DOE); director of information systems strategic planning, 3M Company; director of information resources management, DOE.

Albert J. Kliman - Project coordinator. Former budget officer, Department of Housing and Urban Development; independent consultant in the fields of government organization, budgeting, and financial management. President of the American Association for Budget and Program Analysis.

Audrey L. Mathews - Senior research associate. Former deputy director, Office of the Budget, District of Columbia; director of budget and management, City of Compton, California; and program director, Professional Development, School of Public Administration, University of Southern California.

Elaine L. Orr - Senior research associate. Management consultant for government and nonprofit organizations. Former director of the international audit liaison function at GAO and GAO evaluator for intergovernmental and Human Resource Management programs.

Roger L. Sperry - Director of management studies for NAPA. Oversees a variety of studies for both executive departments and agencies and for congressional committees. Formerly two years with the Senate Committee on Governmental Affairs and 26 years with GAO.

Rebecca J. Wallace - Senior research associate. Management consultant. Former director of logistics management, U.S. Customs Service; and deputy director, Office of Administrative and Publishing Services, GAO, where she also worked as an organizational development specialist and evaluator of intergovernmental programs.

Shawnta R. Watson - Research assistant. Former statistical clerk, Food and Drug Administration; researcher/writer, *The Eclipse Newspaper*; M.A. candidate in Political Science at Washington University in St. Louis, Missouri.

Frank Yeager - Senior research associate. Human resources management consultant. Former director of personnel management; director, information resources management; director, management policy and systems; and director of audit and investigations, all in the Department of Labor.

APPENDIX C

PARTIAL LISTING OF DOCUMENTS REVIEWED FOR NAPA REVIEW OF HUD

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APPENDIX D

**DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
INTERVIEWS CONDUCTED AND CONTACTS MADE
DURING NAPA STUDY**

Office of the Secretary

Henry Cisneros	Secretary
Terrence Duvernay	Deputy Secretary
Robert Allen	Deputy Assistant to the Secretary for Field Management
Susan Burkett	Deputy Assistant to the Secretary for Field Management
Jim Hagerty	National Performance Review Director for HUD
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Bruce Katz	Chief of Staff
George Latimer	Director of Special Projects
Albert Miller	Executive Assistant, Office of the Deputy Secretary

Office of Administration

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Ilene Leff	Deputy Assistant Secretary for Administration
Charles Brandt	Management Analyst, Productivity Analysis and Support Branch, Office of Budget
Marcella Belt	Director, Executive Personnel Management Division, Office of Personnel
Brenda Callahan	Chief, Compensation and Benefits Branch, Office of Personnel
Sandra Chavis	Director, Headquarters Personnel Division, Office of Personnel
Bruce Conger	Chief, System and Procedures Branch, Office of Budget
Eire Davis	Director, HUD 2000 Division, Office of Personnel
Donald Demitros	Director, Office of Information Policy and Systems, Office of Personnel
John DeVoll	Position Classification Specialist, Office of Human Resources
William Eargle, Jr.	Director, Office of Finance and Accounting, Office of Budget
Frieda Edwards	Chief, Budget and Legislative Coordination Branch, Office of Budget
John Finley	Director, Budget Management and Systems Division, Office of Budget
Brian Hall	Director, HUD Integrated Information Processing System Migration Management Staff, Office of Info. Policies & Systems
Paul Harris	Director, Training and Productivity, Office of Personnel
Neil Haynes	Manager, Office of Information Policy and Systems
Joseph Hebb	Director, Computer Services Group, Office of Information Policies and Systems
Olivia Jensen	Deputy Director of Personnel

Harold Morrison	Director, Technical Support Division, Office of Personnel
Bruce Needham	Director, Client Service and Field Support Staff, Office of Personnel
Nita Nigam	Staff, Assisted Housing Branch, Office of Budget
Herbert Persil	Director, Office of Budget
Norm Phelps	Director, Office of Personnel
Earnestine Pruitt	Deputy Director, Executive Personnel Management Division, Office of Personnel
Garland Reid	Chief, Productivity Analysis and Support Branch, Office of Budget
Linda Reid	Director, Administrative Expenses Division, Office of Budget
Richard Santangelo	Chief, Capacity Studies Division, Office of Budget
Joanne Simms	Director, Labor and Employee Relations, Office of Personnel
Terry Smith	Deputy Director, Policy and Planning Division, Office of Personnel
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Office of the Chief Financial Officer

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David Epstein	Director, Office of Financial Systems Integration
Laurence Greene	Director, Financial Policy and Evaluation
Owen Jones	Staff
Kathleen Monahan	Management Analyst
Chris Rossillo	Deputy Chief for Operations

Office of Community Planning and Development

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Richard Broun	Director, Environment and Energy
James Cunningham	Assistant to the Acting Director, Policy Coordination Unit
Frank Davis	Chief, Field Coordination Unit
Marcia Dodge	Deputy Director, Office of Affordable Housing
Mark Johnston	Deputy Director, Special Needs Assistance Programs
Mary Kolesar	Director, Program Policy Division
Alan Lombard	Former Comptroller

Don Patch	Director, Office of Block Grant Assistance
Roy Priest	Director, Economic Development
Joseph Smith	Acting Director, Policy Coordination Unit
Jo Ann Stanton	Director, Office of Management

Office of Congressional and Intergovernmental Relations

William Gilmartin	Assistant Secretary for Congressional and Intergovernmental Relations
Luis Burguillo	Senior Intergovernmental Relations Officer

Office of Fair Housing and Equal Opportunity

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Ted Daniels	Budget Officer
Paul Williams	General Deputy Assistant Secretary

Office of the General Counsel

Edward Murphy, Jr. Associate General Counsel

Office of Housing/FHA

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John Ambrogne	Director, Office of Budget and Field Resources
Jerry Bedo	Staff, Office of Budget
Eleanor Clark	Housing/FHA Comptroller
Edward Dervan	Staff, Office of Budget
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Conrad Egan	Special Assistant to the Deputy Assistant Secretary, Multifamily Housing Programs
Lawrence Goldberger	Associate Deputy Assistant Secretary, Multifamily Housing
C. Duncan MacRae	Deputy Housing/FHA Comptroller
Steve Martin	Associate Deputy Assistant Secretary for Program Systems, Multifamily
Philip Salamone	Deputy Assistant Secretary for Operations
Eileen Walker	Program Analyst, Preservation and Property Disposition

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Chris Greer	Assistant Inspector General for Audit

James Heaster	Staff
Roy Heaster	Director, Field Liaison Staff (Audits)
James Heist	Director, Audit Oversight Staff
James Martin	Director, Planning and Administration
Robert Martin	Deputy Assistant Inspector General for Audits
Michael Phelps	Deputy Assistant Inspector for Audits

Office of Policy Development and Research

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Lawrence Thompson	Deputy Assistant Secretary
Martin Abravenel	Director, Policy Studies Division
Donald Bradley	Director, Program Monitoring and Research
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Charles Taylor	Director, Division of Budget and Contracts
Cheryl Teninga	Executive Administrative Assistant

Office of Public Affairs

Jean Nolan	Assistant Secretary
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Office of Public and Indian Housing

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Michael Janis	General Deputy Assistant Secretary
Casimir Bonkowski	Director, Office of Management and Policy
Barbara Burkhalter	Comptroller
John Comerford	Director, Financial Management Division
Mary Conway	Staff, Office of Assisted Housing, Rental Assistance Division
Nanci Gelb	Director, Budget Division
William Gilliland	Staff, Office of Assisted Housing, Rental Assistance Division
Madeline Hastings	Director, Office of Assisted Housing
Sherone Ivey	Acting Director, General Management Division
Sueshila Kaul	Administrative Officer
Edward Moses	Director, Office of Resident Initiatives
Herbert Murphy	Section 8, Project Director
Janice Rattley	Director, Office of Construction, Rehabilitation and Maintenance
Roma Suller	Staff, Office of Assisted Housing, Rental Assistance Division

Government National Mortgage Association

William Dobrzykowski Vice President

REGION II**Buffalo Office**

Joseph Lynch	Manager
Richard Lippold	Deputy Manager
Nancy Peacock	Director, Administration Division

REGION III**Philadelphia Office**

Harry Staller	Deputy Regional Administrator
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Rheba Gwaltney	Division Director, Housing Management
Harold Jackson	Director of Fair Housing
Candi Simms	Director of Housing Development
Bill Tamburrino	Director, Public Housing
Harold Young	Director, Community Planning and Development

REGION IV**Atlanta Office**

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Mary Harter	Accountant
Bill Humfleet	Regional Comptroller
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Dewitt King	Staff, Budget Branch
Charles Liphrott	Staff, Systems Division
Diane Littleton	Special Assistant to Director of Administration
Jim Long	Executive Assistant to Regional Administrator
Doris Needham	Special Assistant to Regional Administrator
Ron Rash	Director, Office of Administration

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 Ken Williams Director, Office of Housing

Nashville Office

John Fisher Manager
 Bill Pavelchik Deputy Manager
 Wynona Batson Public Housing Director
 Marilyn Buchanan Multifamily Loan Management Specialist
 Ron Buchanan Housing Management Program Analyst
 Daisy Hughes Public Housing Technical Support Branch Chief
 Aleta Kuckkahn Housing Management Analyst
 June Oliver Financial Analyst
 Ed Phillips Housing Development Director

REGION V

Chicago Office

Joseph Garaffa Acting Regional Administrator
 Jim Barnes Supervisor, Community Planning and Development
 Beverly Bishop Former Chief, Property Disposition
 Janice Cooper Chief, Single Family Branch, Housing Management
 Gene Goldfarb Environmental Officer
 Judith Heaney Chief, Single Family Branch, Housing Development
 Ed Hinsberger Staff, Loan Management
 Leon Jacobs Regional Director, Indian Programs
 Patricia Jameson Director, Office of Administration
 Jean Kliest Deputy Director, Management
 Michael Kulick Director, Office of Housing
 Cyndi Larson Program Director, Neighbor Housing Service
 David McMullin Housing Management Specialist
 Lewis Nixon Regional Counsel
 Thomas Reimer Director, Public Housing
 Ann Scherrieb Director, Program Planning and Evaluation
 Herbert Small Chief, Organization Management and Personnel Branch
 Ben Tessler Manager, Multifamily Programs
 Debbie Wells Supervisor, Community Planning and Development
 Richard Wilson Director, Community Planning and Development

Columbus Office

Robert Dolin Manager
 Stephen Havens Deputy Manager

Detroit Office

Harry Sharrot Manager

Milwaukee Office

Delbert Reynolds Manager
Gladys Kane Director, Housing Management
Lester Marriner Director, Housing Development Division
Steve Porath Director of Public Housing
Lana Vacha Director, Community Planning and Development

Minneapolis St. Paul Office

Thomas Feeney Manager

REGION VI**Forth Worth Office**

Walter Sevier Acting Regional Administrator
William Canales Director, Public Housing
James Garcia Director, Personnel Division
Richard Kenyon Regional Comptroller
Thomas Peeler Director, Administration
R. D. Smith Director, Community Planning and Development

San Antonio Office

Cynthia Leon Manager
Donald Creech Deputy Manager
Robert Brown Multifamily Housing Representative
Antonio Cabral Chief, Mortgage Credit Branch
Elva Castillo Chief, Loan Management Branch
Luz Day Director, Public Housing Division
John Maldonado Director, Community Planning and Development
Dahlia Martinez Chief, Property Disposition Branch

REGION VII**Kansas City**

Elmer Binford Acting Regional Administrator
Ken Carpenter Acting Director, Housing Management Division
Steve Israelite Director, Public Housing

Thomas Lawler	Director, Administration
Miguel Madrigal	Director, Community Planning and Development
Floyd May	Director, Fair Housing and Equal Opportunity
Larry Mohler	Acting Director, Management Systems Division

REGION X

San Francisco

Art Agnos	Regional Administrator
Keith Axtell	Director, Housing
Ann D'Alfonsi	Administrative Assistant, Housing
Bob Dutra	Office of Housing/FHA
David Fischer	Director, Accounting Division
Joann Hall	Director, Program Planning and Evaluation
Virgil Jackson	Acting Director, Administrative Services
John Kasper	Office of Management and Budget
Dorothy Lacey	Director, Administration
Sharman Lancefield	Director, Management and Budget Division
Joyce Lee	Office of Management and Budget
Gordon McKay	Director, Community Planning and Development
Bea Oje	Acting Director, Personnel Services
John Wilson	Deputy Regional Administrator

Los Angeles Office

Malcolm Findley	Director, Housing Management Division
Joseph Hirsch	Director, Housing Development Division
Karen Potts	Program Manager, Homeless Programs

Former HUD Officials

Charles Dempsey	Former Inspector General
Vincent Hearing	Former Deputy Assistant Secretary for Administration
George Hipps	Former Deputy FHA Commissioner
Judith Hofmann	Former Assistant Secretary for Administration
Dwight Ink	First Assistant Secretary for Administration
Don Keuch	Former Deputy Assistant Secretary
Charles Lawrence	Former Deputy Personnel Director

Congressional Committee Staffs

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Kevin Kelly	Chief Clerk, Senate Committee on Appropriations, Subcommittee on VA, HUD and Independent Agencies
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Nancy Lipson	Acting Staff Director, House Committee on Banking, Housing & Urban Affairs, Subcommittee on Housing and Community Development
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John Valencia	Staff Director, House Committee on Banking, Housing & Urban Affairs, Subcommittee on Housing and Urban Affairs
Joseph Ventrone	Minority Staff, House Committee on Banking, Housing & Urban Affairs, Subcommittee on Housing and Urban Affairs
William Warfield	Minority Staff, House Committee on Appropriation, Subcommittee on VA, HUD and Independent Agencies
Paul Weech	Staff Director, Senate Committee on Banking, Housing & Urban Affairs, Subcommittee on Housing and Community Development

Office of Management and Budget

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Steve Redburn	Chief, Housing & FEMA Branch
Frank Reeder	Assistant Director, General Management
Ken Ryder	Director, HTF Division
Dennis Stout	HUD Branch

General Accounting Office

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Clifford Fowler	Assistant Director, Resources, Community & Economic Development
Larry Goldsmith	Evaluator, Resources, Community and Economic Development
John Hill, Jr.	Director, Accounting and Information Management
Stuart Kaufman	Senior Evaluator, General Government
Bill McBlane	Evaluator, Resources, Community & Economic Development
Bonnie Steller	Senior Evaluator, General Government
Rona Stillman	Associate Director, Accounting and Information Management
Earl Walters	Assistant Director, General Government
Jacquelyn Williams	Associate Director, Resources, Community & Economic Development

Other Federal Agencies, Current and Former Officials

Alan Dean	Former Assistant Secretary for Administration, Transportation
Kunika Gibson	Staff, Community Enterprise Board, Office of the Vice President
Jim Hagerty	NPR Staff Director for HUD
Harold Seidman	Former Assistant Director, Management and Organization, former Bureau of the Budget

PARTICIPANTS IN NAPA-CONDUCTED DISCUSSION GROUPS WITH USERS OF HUD PROGRAMS

Baltimore Discussion Groups

Margaret Allen	AGM Financial
Pat Balley	NHP
Anita Chavis	Baltimore Housing and Community Development
Kevin Cleary	NHS
Jim Davis	Maryland CDA
Harold Ferry	Baltimore Housing and Community Development
Harold Greene	Annapolis Public Housing Authority
Tom Hobbes	Shelter Realty
Lois Kramer	Baltimore County Housing and Community Development
Larry Lloyd	Anne Arundel County Public Housing Authority
Delocket McClore	1 st Maryland Mortgage (Division of Nations Bank)
Nancy Rase	Maryland CDA
Kevin Roddy	Baltimore County Housing and Community Development
Leslie Steen	Community Preservation Corporation
Ron Walters	Maryland DHCD

Chicago Discussion Groups

Bruce Gottschall	Executive Director, Neighborhood Housing Services
Henry Hyatt	Developer, Baskin, Epstein and Hyatt
Ed Jacobs	Community Lending Officer, 1st Chicago Bank
Alon Jeffrey	Executive Director, Lake County Public Housing Authority
Pat Jeffries	Staff, The Nagel Group (Property Management)
John Kamin	Finance Director, Bigelow Homes
Alan Kravitz	Staff, Developers Mortgage Company
Marie Kruse	Assistant Executive Director, Oak Park Public Housing Authority
Carolyn Lofton	Assistant Manager, Program Operations, Illinois Housing Development Authority
Christine Oliver	Executive Director, Chicago Dwellings Association
Paul Roldan	Executive Director, Hispanic Housing

Ed Solon	Manager, Multi-Family Operations
Victor Walchirk	Executive Director, Cook County Public Housing Authority
Maggie Warner	Underwriter, Draper and Kramer Mortgage Company
Robert Whitfield	Chief Operating Officer
Frank Wolf	Senior Lending Officer, Commonwealth United Mortgage Corporation

December 15th HUD/Academy Forum

Kathleen A. Boland	Executive Director, Center for Housing Policy
Rachel Bratt	Professor, Department of Urban & Environmental Policy, Tufts University
Philip Brownstein	Brownstein, Zeidman and Lore, Professional Corporation
Marla Burton	Former Executive Director, National Association of Neighborhoods
Cushing Dolbeare	Executive Secretary, National Low Income Housing Coalition
Anthony Downs	Senior Fellow, The Brookings Institution
F. Scott Fosler	President, National Academy of Public Administration
Chester Hartman	President & Executive Director, Poverty and Race Research Action Council
Vincent Lane	Chairman, Chicago Housing Authority
Warren Lasko	Executive Director, Mortgage Bankers Association
Eugene T. Lowe	Assistant Executive Director, Committee on Community, Housing and Economic Development, U.S. Conference of Mayors
Felice Machetti	Commissioner, New York Department of Housing Preservation & Development
Charlotte Sobel	Housing Development Specialist, Center for Community Change
Richard Nelson	Executive Director, National Association of Housing and Redevelopment Officials
Kenneth E. Poole	Director, Technical Assistance & Research, National Council for Urban Economic Development
Alice Shabecoff	Consultant
John Sidor	Executive Director, Council of State Community Development Agencies
Lawrence Simons	Attorney at Law, Powell, Goldstein, Frazer & Murphy
Steve Tuminaro	Director of Policy Analyses, Neighborhood Reinvestment Corporation

Denver Discussion Groups

Paul Barru	BHI Inc.
Ed Biga	Aurora Housing Authority
Henry Burgwyn	Alpine Mortgage Group
Brenda Connors	PBVM, Mercy Services Corporation
Joe Giron	Brothers Redevelopment Inc.

Alice Grunbeck	Habitat for Humanity
Rodger Hara	Colorado Housing and Finance Authority
James C. Henry	Melody Homes Inc.
Noel West Lane, III	President Elect, HomeBuilders Association of Metro Denver
Peter Lansing	Universal Lending Corporation
Jim Liles	Boulder County Housing Authority
Susan Lyons	CHFA
Gete Mekonnen	North East Denver Housing Center
Eddie Muniz	Hope Communities Inc.
Jim Murphy	Urban Inc.
Melissa Neam	Countrywide Funding Corporation
Jack Quinn	Pueblo Housing Authority
Toby Rodrigues	Denver Housing Inc.
Mary Helen Sanderval	Mercy Housing Inc.
Chuck Schloz	Denver Housing Inc.
Renita K. Steinhamp	Mercy Housing Inc.
Rochelle Stephens	Ft. Collins Housing Authority
Richard M. Sullivan	Colorado Springs Housing Authority
Keith Sutton	Brothers Redevelopment Inc.
Ed Talbot	Arvada Public Housing Authority
Mark Welch	Colorado Rural Housing Development Corporation

State and Local Officials

Amy Anthony	Former Director, Massachusetts Housing Financial Development Agency
Thomas Argust	Commissioner, Community Development, City of Rochester
Anthony Brown	City of Chicago, Department of Planning
Gwendolyn Clemmons	Staff, Department of Planning
Steve DeMeo	Former Commissioner of Community Development, City of Utica, New York
Donna Ducharme	Deputy Commissioner, Chicago Department of Planning
Sonya Malunda	First Deputy Commissioner, Chicago Housing Authority
Debra Conrardy Mitchell	First Deputy Commissioner Chicago Department of Planning
Xan Norcik	Coordinator of Economic Development, Chicago, Department of Planning
Thomas Schwertmar	Staff, Department of Planning
Henry Taylor, Ph.D.	Director, Center for Applied Public Studies

Associations and Interest Groups

Gordon Cavanaugh	Former Executive Director, Council of Large Public Housing Agencies
Mary Ann Russ	Executive Director, Council of Large Public Housing Agencies

Price Waterhouse

Nicole Garner	Senior Project Manager
Tom Janson	Staff
Arnold Kim	Financial Contractor
John Korbel	Staff
Fred Laughlin	Financial Contractor

Public Interest Groups Submitting Comments

Council of Large Public Housing Authorities
Institute of Real Estate Management
International City/County Management Association
Mortgage Bankers Association
National Apartment Association
National Association of Realtors
National Corporation for Housing Partnerships
National Council on the Aging
National League of Cities
National Leased Housing Association
National Training and Information Center

APPENDIX E

LIST OF PANEL RECOMMENDATIONS BY CHAPTER

CHAPTER THREE: HUD'S PROGRAMS AND COMMUNITIES THEY SERVE

1) Recommendations for: Stresses of Program Growth

The Academy panel recommends that HUD:

- ◆ Submit to OMB and Congress a comprehensive proposal to reorganize HUD "programs" and group under them individual "activities."
 - A program is a group of related activities that have certain characteristics: description as a "program" in legislation, regulations or formal issuances; discrete budget and accounts; separate staff; relative permanence; and operation under rules that are distinct from those of other departmental activities.
 - An "activity" is an endeavor that may be separately described, but is carried on within a program and does not constitute a program, as previously described.
- ◆ Estimate the resources required for legislative or administrative proposals that are expected to add to or modify HUD's program responsibilities, and specifically note whether these would be provided through additions to HUD's budget or resource shifts from existing, named, programs.

The Academy panel recommends that Congress:

- ◆ Permit HUD to foster innovation through broad waiver authority, similar to that of the Department of Health and Human Services, so that states and communities can experiment with system-wide changes in housing or community development policy.

2) Recommendations for: HUD in the Communities: Trying to Move From Requirements to Results

The Academy panel recommends that HUD:

- ◆ Work through a single community planning mechanism to coordinate information and reporting requirements among HUD's programs and across its offices.
- ◆ Eliminate requests for data, in plans and reports, unless they are integral to direct program operations and HUD consistently uses the data.

- ◆ Emphasize the need to demonstrate results rather than to document processes. This must be done through substantive changes, such as modifying reporting requirements so that users are asked largely to present information on performance.
- ◆ Consolidate calls for data, among HUD's programs and across its divisions, and take advantage of technology. Automate data requests and input whenever possible, so that clients do not have to download data from their systems and convert it to paper, only to have HUD have to reload it into a HUD database.
- ◆ Work with Congress to draft amendments to the HUD Reform Act so that the Act's requirements, while working toward sound management and accountability, do not serve as impediments to HUD's goals in working with developers, direct service providers, and communities.

3) **Recommendations for: Working in the Federal Arena**

The Academy panel recommends that HUD:

- ◆ Set up a simple procedure for HUD users to document when governmentwide federal requirements add costs or delay action. Use these data to determine whether there are federal requirements (such as the Davis-Bacon Act or the Uniform Procedures Act) that HUD should work with other agencies to urge Congress to change.
- ◆ Share with communities information about what works well in all programs, but especially in the Empowerment Zones and Enterprise Communities. There will probably never be full funding of these programs, but if HUD takes the lead on information sharing, the concept may take hold.

The Academy panel recommends that the administration:

- ◆ Establish counterparts to the Community Enterprise Board in major metropolitan areas to coordinate housing or community and/or economic development programs.

4) **Recommendations for: From Bit Player to Full Partner**

The Academy panel recommends that HUD:

- ◆ Use the newly formed Community Empowerment Teams in HUD's 81 locations to seek regular input from HUD's communities of users on HUD policies and requirements and the impact they will have on communities.

- ◆ Minimize Washington-based interference in local decisions and partnerships.
- ◆ Legitimize interaction between HUD and the various communities it serves. Overturn the HUD OGC ruling that HUD staff had to resign from advisory committees and boards.
- ◆ Study the Negotiated Investment Strategy concept, which entails intergovernmental negotiation to facilitate local urban strategies; consider implementing some of these concepts--without creating a separate program to do so.
- ◆ Revise the employee incentive system (expectations, rating criteria, and promotion considerations) to emphasize that working with communities and other agencies is as important as enforcing regulations.
- ◆ Undertake a major investment in retooling HUD staff to prepare for different kinds of relationships with all communities of users.
- ◆ Create short-term staff rotation assignments between HUD and state and local governments and nonprofit organizations. These are already permitted under the federal Intergovernmental Personnel Act, and would provide HUD and its communities of users with important exposure to one another's work and methods.

CHAPTER FOUR: ORGANIZING TO FULFILL THE MISSION

1) Recommendations for: The Cisneros Reorganization

The Academy panel recommends that HUD:

- ◆ Define the roles and responsibilities of secretary's representatives and state and area coordinators so that they do not overlap one another or cause communities to deal with multiple HUD officials on the same or similar topics.
- ◆ Select as area coordinator for the former regional office cities, an experienced HUD manager. The area coordinators for those offices should also be the state coordinators.
- ◆ Confine the secretary's representatives' responsibilities to multi-state and inter-departmental issues, and provide them a small staff, separate from the HUD area office, to assist in and give continuity to this work.

- ◆ Develop a decision-making process by which field offices have some discretion to deal with temporary staffing problems caused by shifts in workload or the loss of staff.

2) **Recommendations for: Organizing to Put Communities First**

The Academy panel recommends that HUD:

- ◆ Analyze how HUD's program areas must change the way they do business to provide holistic services to communities rather than solely program-focused assistance.
- ◆ Make program assistant secretaries responsible for inter-program coordination, provide incentives for accomplishing this, and regularly evaluate via formal studies how well programs are coordinated.
- ◆ Pilot test alternative organizational models and mechanisms, such as the inter-program approach being used in the Buffalo field office, to determine whether these methods should be introduced in other field offices.
- ◆ Allocate a small number of staff to the state coordinator based on the amount of HUD activity in a state and the needs of the communities in each state.
- ◆ Select, through a merit promotion process, staff whose careers demonstrate they can work well with community leaders and are able to work effectively across the complexity of HUD's programs.
- ◆ Develop, as part of its revitalized training program, a mix of classroom and experience-based instruction that prepares a cadre of staff for state and area coordinator positions and for headquarters' positions to manage inter-program coordination.

3) **Recommendations for: Structuring for the Long-Term**

The Academy panel recommends that HUD:

- ◆ Maximize the use of processing centers to handle location neutral activities.
- ◆ Use the next two years to determine the number of offices needed to effectively perform its mission and propose to Congress the needed workplace and workforce realignments.
- ◆ Establish criteria for successfully meeting the goals of increased program accountability and putting communities first, and evaluate whether the organization structure needs to be modified to better meet those goals.

4) **Recommendations for: The Federal Housing Administration: Considerations for a Corporate Structure**

The Academy panel recommends that Congress:

- ◆ Transfer the corporate powers of FHA from the secretary to the corporation, permitting it to function with greater operational autonomy within HUD.
- ◆ Vest management of FHA in a single administrator appointed by the president, with Senate confirmation, for a six-year term of office. The administrator should be compensated at the same level as the chief executive officers of comparable government corporations.
- ◆ Commission an analysis of the advantages and disadvantages of a possible merger of FHA and GNMA.

CHAPTER FIVE: MANAGEMENT SYSTEMS AND INITIATIVES

1) **Recommendations for: Financial Management**

The Academy panel recommends that HUD:

- ◆ Define expeditiously the functions and responsibilities of the comptroller positions in the respective headquarters offices; their relationships with program and administrative management and with the Chief Financial Officer's office; and the numbers and skills of staff needed to carry out effectively the defined comptroller functions in these offices.
- ◆ Complete promptly the effort to "reinvent" the Management Control Program. If the effort is successful in developing a model approach that is effective for achieving appropriate internal controls, move quickly to incorporate the approach into a comprehensive departmental program.
- ◆ Ensure that, as financial systems development and integration efforts proceed, information concerning the findings of prior relevant internal control reviews and other studies is systematically gathered, made available to, and considered by those responsible for the systems effort, and that appropriate consideration is given to internal controls that should be included in the systems design.
- ◆ Include, as part of the increased emphasis on front-end risk assessments for new or revised program and administrative processes, risk assessments of the changes in processes and organizational relationships inherent in the several major initiatives being undertaken as part of HUD's reinvention and streamlining activities.

- ◆ Assess the resource requirements (staff, training, and contractor assistance) to carry out these recommendations in a timely manner and move to secure and employ such resources to the extent practicable consistent with other resource planning and management priorities.

2) **Recommendations for: Systems Integration and Information Management**

The Academy panel recommends that HUD:

- ◆ Charter the newly constituted Management Committee to assume all functions of the SISC and the Information Resources Management Planning Board, and oversight of all aspects of systems (including nonfinancial systems) and information management; ensure that HUD's field offices are represented during Committee consideration of information systems; and create a small, permanent staff reporting to the deputy secretary to support information management functions.
- ◆ Prepare guidance for the Strategic Performance System that informs program assistant secretaries concerning what constitutes adequate documentation of business strategies; mandates the development of Information Strategic Plans (ISP) by all program assistant secretaries and major administrative support organizations; and establishes deadlines for each ISP.
- ◆ Hold program assistant secretaries accountable for the adequacy and quality of information.
- ◆ Provide for more field organization involvement in the design, development, implementation, and operation of systems better to ensure that future systems are designed to support operations in the field;
- ◆ Conduct an assessment to determine the adequacy of numbers of automation technology assistants in field offices and whether reallocation of resources would alleviate identified shortages.
- ◆ Hold the Office of Information Policy and Systems (IPS) responsible for developing and implementing a HUD enterprise architecture that facilitates systems integration; hold program assistant secretaries responsible for supporting architecture development and implementation; and task IPS to develop an executive summary of HUD's systems development methodology.
- ◆ Formulate a strategy for investment in HUD's information technology infrastructure.

3) Recommendations for: Staff Estimation and Allocation

The Academy panel recommends that HUD:

- ◆ Continue its efforts to develop a comprehensive and effective resource management process and develop the tools needed in resource management.
- ◆ Require, as part of the process, that each HUD official at the assistant secretary level: develop and periodically update an inventory of the functions and activities HUD should carry out in his or her area of responsibility; assign priorities to the functions and activities in accordance with a management assessment of risks and benefits, financial and otherwise, associated with each; assess the resources (staff numbers and skills, contract assistance, travel, training, etc.) that would be required to carry out those functions and activities effectively; and quantify the differences between resources available and resources needed at different levels of priority. The inventory, assignment of priorities, and assessment of required resources should have involvement and input, where applicable, of field office officials, and should anticipate the effects of initiatives, including program streamlining and consolidation, which have implications for resource requirements.
- ◆ Use the inventories of functions and activities, their assigned priorities, and the assessed levels of resources requirements as the basis for analyzing the marginal utility of alternative levels of resources within responsibility areas and for HUD as a whole, and of alternative allocations of available resources among and within responsibility areas. Functions of lesser priority that cannot be accomplished within available resources should be excluded from work plans.
- ◆ Follow through on its stated intention to examine in greater detail contract efforts that might be more cost effectively accomplished with federal employees and, if warranted, recommend through the budget process authorization to accomplish the work through the most cost effective method.
- ◆ At least for the time being, retain the Employee Time Reporting System and the Resource Allocation Guidelines System, but emphasize to the program assistant secretaries the need to assess current workload indicators and revise them as appropriate to increase their utility as output measures and thus the utility of RAGS as a source of information that will be of value in resource management determinations.

4) Recommendations for: Human Resource Management

The Academy panel recommends that HUD:

- ◆ Include a plan to retrain and reassign current staff to high-priority programs in its staffing strategy.

- ◆ Balance the recruitment of fully trained staff with an aggressive college recruitment program, supported by adequate training programs, to ensure the agency has a continuing supply of highly qualified persons to replace its aging work force.
- ◆ Develop a training and staff development plan that provides for a significant increase in the level of staff and dollar resources and meets the training needs in the department adequately.
- ◆ Adopt the policy that all major program redesigns and reorganizations define and cost out training needs as an integral part of their implementation plans.
- ◆ Develop an executive development program.
- ◆ Focus performance appraisal, as the NPR recommends, on the goal of improving individual and organizational performance.
- ◆ Reduce the procedural requirements of the performance appraisal system to a minimal level by using three rating levels and providing that only failing or outstanding ratings require written justification.
- ◆ Institute a continuing program to secure an ongoing assessment of the effectiveness of staff communications within HUD and to identify problems on a timely basis.

CHAPTER SIX: SUSTAINING MANAGEMENT LEADERSHIP AND A LONG-TERM INSTITUTION-BUILDING AGENDA

1) **Recommendation for: The Key to Building and Maintaining the Institution: A Long-Term Agenda**

The Academy panel recommends that HUD:

- ◆ Articulate a comprehensive, *five-year agenda* for building and maintaining the department's capacity to fulfill its mission.
- ◆ Build on the external commitments in the Presidential Performance Agreement to vest interest in achieving this agenda in OMB and Congress.

2) Recommendation for: The Leadership Needed to Carry out the Agenda

The Academy panel recommends that HUD:

- ◆ Develop legislation that would provide continuity of leadership by establishing an *under secretary for management* and requiring that the individual in this position be appointed by the President and subject to Senate confirmation with qualifications to manage a large public organization set forth in the law. Like the inspectors general, Congress should be notified on removal of any incumbent in this position.
- ◆ Assign responsibility for implementing elements of the agenda to specific individuals or groups under the leadership of the COO, working with the under secretary for management.
- ◆ Provide a career staff to support the work of the under secretary.

3) Recommendation for: The Congressional Role in Capacity-Building

The Academy Panel recommends that Congress:

- ◆ Endorse the five-year institution building agenda for HUD.
- ◆ Enact legislation establishing an under secretary for management in HUD and incorporating a statement of qualifications for this position.
- ◆ Require the HUD secretary to develop an action plan for the coming year and report progress during the preceding year on implementing the multi-year agenda. (The plan could be provided with the department's annual budget justification.)
- ◆ Institute an annual review process, through congressional hearings, to assess progress toward achieving the capacity-building agenda. A foundation for the hearings could be provided through an annual assessment by an independent organization, such as the General Accounting Office, or updates of this report by NAPA.
- ◆ Following an assessment of the action plan and articulation of any changes believed needed in the plan, provide the funding needed to carry out the plan.

4) Recommendation for: A Process for Thinking and Acting Strategically

The Academy panel recommends that HUD:

- ◆ Expand the initial Strategic Performance System framework to add provisions for developing, enacting, and implementing comprehensive legislation and for

preparing program business strategies, program operational plans, field implementation plans, and support program plans (in addition to information strategic plans).

- ◆ Ensure, through the Management Committee chaired by the deputy secretary, that HUD implements the Strategic Performance System by holding the program assistant secretaries accountable for completing program business strategies and information strategic plans in fiscal year 1994. Program operational planning, field implementation planning, and support planning (other than ISPs) should be completed no later than fiscal year 1995.

APPENDIX F

COMMENTS FROM HUD

The Department of Housing and Urban Development (HUD) is pleased to provide comments on the National Academy of Public Administration's (NAPA) draft report, Renewing HUD: A Long-Term Agenda for Effective Performance. The Department commends NAPA for an excellent and comprehensive job, especially within a tight time frame and in a period of massive change for the Department. NAPA took an appropriately broad approach to its charge, including an historical review, discussions with current and former HUD managers, visits to the Field Offices, consultations with Congress, OMB, and GAO, and three field hearings. This approach has led to a thoughtful draft report which quite accurately describes many of HUD's major programmatic and operational problems, and provides thoughtful suggestions.

The Transformation of HUD

The draft report and its preparatory process came at an ideal time because the Department has spent the last year reinventing itself--its mission, its programs, its methods of doing business, and its organization. The Department is committed to reestablishing HUD's role as the Nation's preeminent provider of decent, safe, affordable housing and community revitalization assistance. To accomplish this, HUD is:

- radically changing its core programs and policies to make them more responsive to communities' needs; and
- where appropriate, identifying new, flexible tools that will enable HUD to participate more fully in today's housing finance and community development arena.

HUD has identified an ambitious agenda and is committed to implementing it. The total transformation of HUD will not take place overnight. While much work remains to be done, the Department has made significant strides in this Administration's first year, establishing the framework for its agenda and showing important early results. HUD's recent report to Congress, The Transformation of HUD, describes the Department's structure, legislative plans, and administrative accomplishments to date. I am sending you a copy of this report under separate cover.

Both The Transformation of HUD and the NAPA report note that HUD must work cooperatively with Congress, constituencies, practitioners, and others to change the way it does business. The advice of reports developed by such experienced organizations as NAPA are particularly important in helping the Department chart an appropriate course. It is, therefore, especially gratifying to see that most of NAPA's recommendations mirror changes the Department has made or is planning to make.

It should be noted that many of the draft recommendations call directly or implicitly for additional staff and increased funding to solve problems. In the current budget environment, these may be difficult to achieve. The President has shown his support for the directions HUD

is taking by requesting significant FY 1995 budget increases in several areas. Our ability to secure these increases from Congress will greatly influence the feasibility of many of NAPA's cost-sensitive recommendations.

The Department has taken action to transform itself from an agency without a clear mission to an agency focused on *helping people create communities of opportunity*. The Department has spelled out six priorities, and used them to review operations to ensure that all programs directly support these priorities.

HUD has confronted a collection of many diffuse and staff-intensive categorical programs with an *ambitious consolidation and streamlining agenda*. By consolidating its operations into 17 program areas, the Department will be able to concentrate its limited resources on its core business. By proposing the elimination of other programs, HUD will be able to use staff resources better and improve program delivery to its customers.

HUD has changed from a reactive agency that was too often an impediment, to *an agent of change and a partner with communities in affordable housing and community development ventures*. The Department has set in place a series of important administrative changes to fulfill this commitment, and staff will continue this effort in the future. The Housing Choice and Community Investment Act of 1994 will give the Department important additional tools and flexibility to respond to the needs of local communities, HUD's ultimate beneficiaries. The Act will enable HUD to support ongoing, innovative efforts to meet critical needs. It will also allow the Department to use its scarce resources to leverage significant private investment. This will enable HUD to carry out its mission in a way that maximizes the use of Federal funds while minimizing its administrative burden.

Through HUD's current reorganization, its structure is shifting from one that impeded results to *an organization which will produce results at the community level*. The Regional Offices have been eliminated and the Field Office staff are now directly accountable to their respective program assistant secretaries.

Most important for ensuring local responsiveness, HUD is delegating many more decisions to the field staff. By creating community empowerment teams, HUD will work with local public and private organizations, and citizens, to ensure that its resources are directed where and how they are needed. For the first time in its history, HUD is assessing its personnel needs and trying to remedy imbalances in resources. Where training or retraining is necessary to meet these needs, attempts will be made to provide it, in part through the new HUD Training Academy.

HUD has altered its vision of success from an emphasis on process and slavishly following detailed regulations to an *emphasis on performance and accountability*. Performance measures will reward staff's achievements in producing benefits to HUD's customers. HUD's Performance Agreement with the President demonstrates a strong commitment at all levels of HUD to making measurable changes in the lives of urban American families. Our First Year Program and Management Priorities and Operating Plan both establish accountability for these commitments throughout the organization.

Areas of Consensus

I want to highlight some of the major areas of consensus between HUD and the recommendations of the NAPA report. NAPA recommends that *HUD begin a comprehensive reorganization into 10 program areas*. While the Department may disagree that 10 is the right number, we have done much to consolidate our programs. The Department agrees with NAPA that it is important that HUD staff, Congress, our customers, and the public begin thinking about the Department not as a set of disparate activities, but as a highly structured set of related program areas. HUD has condensed its programs into 17 program areas, totalling 50 active programs (see Enclosures 1 and 2).

Because eight of these areas represent the bulk of the Department's operations, HUD has primarily targeted its early consolidation and streamlining efforts toward these core programs. The reorganization of seven McKinney Act homeless assistance programs into one program, the merger of Section 8 certificates and vouchers, and the consolidation of Section 24 of the Housing and Community Development Act of 1992 and HOPE VI are just a few of the recent changes. The Department also proposes to discontinue or consolidate 59 other programs (see Enclosure 3), and is currently examining an additional 47 program and activities (see Enclosure 4) with the goal of further consolidation and streamlining.

As part of this streamlining, NAPA recommends *broad waiver authority be granted to the Secretary and consolidation of community planning and reporting requirements for grantees*. The Department heartily agrees with these recommendations. The Housing Choice and Community Investment Act of 1994 proposes two demonstrations--Entrepreneurial Public Housing Authorities and Innovative Affordable Housing--which include broad waiver authority in the public housing and FHA areas. The Multifamily Housing Property Disposition Act of 1994 also gave the Department broad waiver authority in the event of disasters. We would be most willing to work with Congress on even broader waiver authority, similar to that granted to the Department of Health and Human Services several years ago, so that system-wide experimentation and flexible program implementation can occur more frequently.

NAPA recommends the *conversion of the Federal Housing Administration to an autonomous federally-chartered corporation*. While HUD is not currently prepared to embrace such a recommendation, we do believe it has merit and have begun an extensive 6-month study of FHA. The Department is committed to reinvigorating FHA to make it a first class financial institution able to: respond to the demands of evolving mortgage markets; serve as a partner in housing finance delivery systems; make a significant contribution to meeting the Nation's housing needs; address the homeownership needs of low- and moderate-income families, minorities, and other priority needs groups; uphold Federal fair lending laws and requirements; and manage competently the risks inherent in these objectives.

Over the next 6 months, the Department will be holding regional forums and consulting with residents, low-income housing advocates, non-profit and for-profit housing providers, builders, realtors, mortgage bankers, the secondary market, the investment banking community, State and local governments, unions, and others to explore other institutional models under which FHA can most effectively accomplish its mission. In November, when these consultations

are completed, the Department will be able to offer recommendations for transforming FHA, including, potentially, creating a new Federal charter.

The draft report makes a series of recommendations to *improve the adequacy of HUD's financial management systems*. These include strengthening the Chief Financial Officer's (CFO) office, reinventing the Management Control program, and ensuring that financial systems development and integration efforts proceed. The CFO's Office is currently completing its reorganization plans, including the assimilation of both headquarters and field accounting operations into the existing organization. As part of this process, the CFO will be defining the functions and responsibilities of the Field Comptrollers, who now report directly to the CFO, as well as the remaining Program Comptrollers, who report directly to their respective assistant secretaries at headquarters.

The Program Comptrollers have been given an expanded role in the implementation of the Department's approved Financial Systems Integration Plan and revised Management Control Program, and continue to work within their respective program areas to resolve all audit findings. The CFO will continue to work with each program assistant secretary to further define and support the role of either the Comptroller or other parties responsible for improved financial management within a program.

The laboratory effort to "reinvent" the Management Control Program was successfully completed in early 1994, and a revised, comprehensive Management Control Program was approved for the Department at the end of March 1994. Implementation of this new program has begun in all program areas, with each program area developing detailed Management Control Plans, risk abatement strategies, and control improvement goals to follow. These plans, strategies, and goals will be updated each year as part of the overall Strategic Performance System.

All major financial systems development and integration efforts are proceeding according to the Department's approved Financial Systems Integration Plan and budget for Fiscal Year (FY) 1994, and the Department will complete its plans for FY 1995 in the next few months. As FY 1995 plans are developed, a systematic review of prior relevant internal control and other related information will be factored into the approval process by the Management Committee.

Front-End Risk Assessments (FERAs) have been increasingly emphasized throughout the Department by the CFO's Office and will be required for all new major initiatives as the Department reinvents and streamlines its activities. Evidence of this increased emphasis is apparent with GNMA's recently introduced REMIC program, which was preceded by a

comprehensive FERA prepared by a partnership of the GNMA Comptroller and program staff, the CFO's Office, and the Office of the Inspector General.

To *promote systems integration and improve information management*, NAPA makes several recommendations. The draft NAPA report provides a good analysis of the history and current state of HUD's improved information systems. The recommendations address the need for management and coordination, for properly planning the development and operational oversight of information systems, and for responsibility for these systems at the highest

management levels. This is, in fact, the stated role of the Systems Integration Steering Committee (SISC) and its predecessor, the Information Resource Management (IRM) Working Group. The Department has laid much of the groundwork to satisfy the NAPA recommendations in this area. Initiatives completed or underway such as the Systems Development Methodology, Information Architecture, Computer Assisted Software Engineering (CASE) and Information Engineering Facility (IEF) tools, Information Strategic Plans, Data Administration and Data Dictionaries are all prerequisites for operating consistent with the NAPA recommendations.

NAPA calls for a *Departmental process for systematically assessing staffing needs and allocating available resources in accordance with an ordered set of priorities*. HUD's Resource Allocation program will redesign HUD's resource management process and provide the analytical tools for managing resources, increasing productivity, and improving performance. These tools include: benchmarking and best practices analysis, business process redesign, value management, cost assessment and containment, cost benefit analysis, performance measurement, workload analysis, and staff planning and assignment. HUD expects to have a redesigned resource management process in place for the development of its FY 1996 budget. As part of the Strategic Performance System, this process will integrate resource decisions with performance objectives and facilitate workload redeployment.

The Department also is conducting a review of its service contract data. The review is examining funding levels and contracts by program area. It also includes an assessment of the potential to convert some of the existing contract services to civil service.

NAPA points out that an organization needs *a well-qualified, well-trained, and motivated staff to accomplish its mission*. The Department agrees. The creation of the HUD Training Academy will mean a significant increase in the Department's commitment and resources devoted to training. Moreover, the Department will attempt to balance the recruitment of fully trained staff with an aggressive college recruitment program, and will strive to do so within available resources.

The current performance appraisal system does, indeed, need revamping because it is cumbersome and does not measure performance adequately. However, the Department believes that the recommendations for modifications to the current five levels which are under consideration would achieve the same purpose.

Finally, NAPA calls for long-term leadership to build and maintain HUD as an institution. Recommendations include the *development of a 5-year institution building plan, with annual reviews of that plan, and the creation of an under secretary for management*. HUD endorses the thrust of these suggestions. The importance of a strategic plan in shaping HUD's direction has already become apparent. The Department has prepared a strategic plan for the Administration's first year, entitled Program and Management Priorities, and intends to extend it into a long-term strategic plan, in accordance with the requirements of the Government Reporting and Performance Act. While the Department has not created a separate position for an under secretary for management, the Deputy Secretary has been designated as the Department's Chief Operating Officer. He has been delegated the functions NAPA envisions for an under secretary for management.

Areas of Concern

There are a few areas in which NAPA's and HUD's positions appear to differ. NAPA is concerned about *the ability of the new HUD organization to advance HUD's mission of creating communities of opportunity*. While NAPA agrees with HUD that the agency's old structure was not working, NAPA questions whether a structure based on Field Office staff reporting to their respective program assistant secretaries will have the intended results. The draft report makes a series of recommendations to strengthen inter-program relationships, some of which we endorse, while others we think can be addressed with different solutions. Because the reorganization of the field is at the crux of a reinvented HUD, let me address each of these recommendations separately.

HUD's reorganization includes a component to *ensure that the Department responds in a coordinated fashion to community needs*. The Department believes that it is absolutely essential for the four program offices to work together to accomplish HUD's mission. For example, the problems of the homeless cannot be solved without the involvement of the staff and resources of several offices, including Public and Indian Housing, Community Planning and Development, and Housing. HUD has developed a collaborative model for the HOPE VI program, which will marshal resources for severely distressed public housing from all across the Department, and eventually will extend this approach to other program areas.

The need for a coordinated approach goes far beyond HUD. The public and private sectors must work together to ensure that resources appropriate to communities' needs are identified and secured. HUD intends to promote this kind of collaboration. The newly-formed "community empowerment teams" in HUD's 81 locations will be used to seek regular input from HUD's communities of users on the impact of HUD policies and requirements on communities. We are now proceeding to develop additional guidance and training on the mechanics of utilizing the empowerment teams as an integrated approach to customer service delivery.

The roles and responsibilities of the Secretary's Representatives and State and Area Coordinators have already been defined so that they do not duplicate one another or cause communities to deal with multiple HUD officials on the same or similar topics. Under the new organization the State/Area offices serve as primary points of contact for the coordination of all HUD programs for the communities within the existing Field Office jurisdictions. The Secretary's Representatives and State/Area Coordinators serve as the catalysts for coordinated, cross-program service to the communities within their offices' jurisdiction. In addition to the State Coordinator responsibilities, each Secretary's Representative serves as my on-site "team leader," advisor, and representative.

The appropriate program assistant secretaries have the responsibility to manage all resources associated with program delivery, including *dealing with temporary staffing problems caused by shifts in workload or the loss of staff*. Accordingly, the Department will be looking to them to address effectively all staffing or workload imbalances as they occur. If an emergency situation should arise, however, there are communication mechanisms in place to allow State/Area Coordinators and program directors to address problems promptly.

While *pilot testing alternative organizational models and mechanisms* (such as the one in the Buffalo Field Office) would be disruptive during the reorganization, the Department agrees that the recommendation has merit. The current reorganization represents one element of the reinvention process. As programs are consolidated and operations streamlined, the Department will need to review and evaluate its program delivery mechanisms. The Department's structure will remain responsive enough to accommodate future adjustments.

The Department agrees that the *staff selected competitively for management positions in the Field Offices should be those whose careers demonstrate they can work well with community leaders and comfortably across the complexity of HUD's programs*. All positions, with the exception of the Secretary's Representatives, are career positions. As career positions become vacant, competitive procedures will be utilized to fill those positions. These procedures will include appropriate selection factors that address knowledge of HUD programs and community service experience.

The Department is particularly concerned that the recommendation to *merge all funding for social services into one program* would have an adverse effect on those who rely on the agency. HUD wants to avoid duplicating services, and in the vast majority of cases, other agencies fund services. In some cases, however, services must be an integral component of a program if they are to be effective. The Department feels that it has struck the appropriate balance in those programs that offer both housing and services, and will ensure that services--both those provided by HUD programs and by other agencies--are effectively coordinated.

Finally, the Department suggests that the report overemphasizes the role of HUD as a financial institution. HUD must also be *viewed as a social institution*. Many of HUD's programs, such as public housing, have a social dimension which must be addressed if HUD is to create "Communities of Opportunity." In addition, the report describes the customer of HUD as the housing industry, and inadequately acknowledges that the residents of HUD assisted housing and other constituencies are also HUD's customers. This is a serious omission in a reinvented management structure and should be corrected in the final report.

[Reference to and enclosure on possible factual errors has been deleted since appropriate corrections have been made.]

Conclusion

HUD has begun the process of transforming itself into a productive and responsive agency. But we should all understand that these efforts will take time and a continuing commitment from the President, Congress, local communities, and HUD staff. NAPA suggests that if HUD has not proven itself within 5 years, it should be dismantled. While the Department agrees with NAPA's sense of urgency, such a turnaround cannot be accomplished on an arbitrary schedule. HUD will improve service to communities significantly in 5 years, but not all problems will be solved. The Department has pledged to become a partner with communities and will undertake a thoughtful and organized effort to see that this occurs. The draft NAPA report, and the comments and questions of NAPA staff during its production, provide much for us to think about as we proceed.

Enclosure 1

BASIC PROGRAM AREAS OF HUD [17 PROGRAM AREAS]

PUBLIC AND INDIAN HOUSING

1. Development
2. Modernization
3. Revitalization of Severely Distressed Public Housing
4. Operation of Low Income Housing Projects
5. Rental Assistance
6. Services to Families and Individuals
7. Indian Housing Programs

HOUSING

8. Development
9. Preservation
10. Homeownership Subsidies
11. Services to Families and Individuals
12. FHA Insurance

COMMUNITY PLANNING AND DEVELOPMENT

13. Community Development
14. Homeless Programs
15. Affordable Housing Programs/HOME

FAIR HOUSING AND EQUAL OPPORTUNITY

16. Fair Housing Initiative/Enforcement Programs

LEAD BASED PAINT ABATEMENT

17. LBP Special Purpose Programs

Enclosure 2

ACTIVE PROGRAMS [50 PROGRAMS]

PUBLIC AND INDIAN HOUSING

1. Development
Modernization
2. Comprehensive Grant Program Activities
3. Comprehensive Improvement Assistance
4. Revitalization of Severely Distressed Public Housing
5. Operation of Low Income Housing Projects
Rental Assistance
6. Section 8 Contract Renewals, Amendments and Sec 23 Conversions
7. Incremental Rental Assistance
Rental Assistance for Disabled Persons
PH Relocation/Opt Outs
8. Choice in Residency (MTI) Counseling
9. Disaster Relief Program
Services to Families and Individuals
10. Housing Family Investment Centers
11. COMPAC
12. Tenant Opportunity Program (TOP)
13. Youth Apprenticeship/Urban Youth Corp
14. PH Early Childhood Development
15. Grants for Economic Development Centers (FHEO Administered)
16. HOPE for Youth/Youthbuild (CPD Administered)
Indian Housing Programs
17. Indian Community Development Program
18. Indian Housing Loan Guarantee Program
19. Indian Modernization Program

HOUSING

Development

20. S.202/Supp Hsg Asst: Elderly/Handicapped
21. Sec 811: Supp Hsg for Disabled Persons
22. Pension Fund Partnership Section 8 Certificates
Preservation
23. Prepayment Preservation Program
24. Flexible Subsidy Program
25. Section 8 Loan Management
26. Section 8 Contract Renewals, Amendments, Rental Adjustments
27. Section 8 Property Disposition
Homeownership Subsidies

28. Housing Counseling Assistance
29. National Homeownership Trust Demo
30. HOPE for Homeownership
 Services to Families and Individuals
31. Drug Programs

FHA Insurance

32. Single Family Programs
33. Multifamily Mortgage Insurance
34. Hospitals
35. Title I
 Manufactured Home Loan Insurance
 Property Improvement Home Insurance

COMMUNITY PLANNING AND DEVELOPMENT

Community Development

36. Community Development Activities
 CDBG Entitlement Program
 CDBG Nonentitlement Program
37. Empowerment Zones
 Zone Economic Development Issues (ZEDI)
38. Community Viability Fund
 NCDI
39. LIFT
40. New Colonias Program
41. Section 108 Loan Guarantees
 Economic Revitalization (EDI)
 Homeless Programs
42. The McKinney Homeless Programs
 Consolidated Grants
 Innovative Homeless Program
 Housing Opportunities for Persons with AIDS
43. Food and Shelter
44. Section 8 Certs for Homeless
 Affordable Housing Programs/HOME
45. HOME Programs
 HOME Local
 HOME States
 Insular Areas

FAIR HOUSING AND EQUAL OPPORTUNITY

Fair Housing Initiative/Enforcement Programs

- 46. Fair Housing Initiatives Program
 - Administrative Enforcement Initiative
 - Private Enforcement Initiative
 - Organization Capacity Building Initiative
 - Education and Outreach Initiative
- 47. Fair Housing Assistance Program
- 48. Fair Housing Metropolitan Area Initiatives

LEAD BASED PAINT ABATEMENT

LBP Special Purpose Programs

- 49. Abatement Assistance
- 50. Research and Development

Enclosure 3

PROGRAM CONSOLIDATIONS/TERMINATIONS [58 PROGRAMS]

PUBLIC AND INDIAN HOUSING

Consolidations

1. Section 8 Certificates
 2. Section 8 Vouchers
 3. HOPE VI
 4. Section 24
 5. Youth Sports (into COMPAC)
- Terminations
6. PH Major Reconstruction: Obsolete Projects
 7. Vacancy Reduction Program
 8. Choice in PH Mgt for Rehabilitation & Redevelopment
 9. Choice in PH Management Section 25 Technical Assistance
 10. Family Unification/Foster Child Care
 11. HOPE for PIH Homeownership
 12. HOPE I: Sec Replacement Unit Set Aside
 13. HOPE for elderly independence
 14. Moving to Opportunity/Housing Counseling Set Aside
 15. Homeownership Demo Program: Omaha NE
 16. HOPE I: Section 5(h) Housing Replacement
 17. Veterans Affairs Supportive Housing
 18. Section 8 Rental Certs: WDC Project
 19. HOPE for Elderly Independence
 20. Indian PH Early Childhood Development Demo
 21. PH Onestop Perinatal Services Demo
 22. Energy Efficiency Demonstration

HOUSING

Consolidations

23. Housing Counseling Services
24. Emergency Homeownership Counseling
25. Prepurchase & Foreclosure Prevention
26. Homeownership/Rental Counselor Training/Certificate
27. Housing Counseling & Assistance, Sec 106(e)
28. HOPE: Multifamily Units
29. HOPE: Single Family Homes

Terminations

30. Home Mortgage Insurance for Outlying Areas
31. Mortgage Insurance for Urban Renewal Areas
32. Mortgage Insurance for Service Members
33. Mortgage Insurance for Experimental Housing
34. Mortgage Insurance: Military Impact Areas
35. Group Practice Facilities
36. Mortgage Insurance for Manufactured Home Parks
37. Energy Efficiency Demonstration
38. Special Purpose Grants

COMMUNITY PLANNING AND DEVELOPMENT

Consolidations

39. Emergency Shelter Grants
40. Supportive Housing Programs
41. Shelter Plus Care Program
42. Sec 8 Mod Rehab for SRO Dwellings
43. Safe Havens for Homeless Individuals Demo
44. Rural Homelessness Grants

Terminations

45. Community Investment Corp. Demo
46. Capital Assistance
47. Development Services/Technical Assistance
48. Training Program
49. Solar Assistance Financing Entity
50. National Cities in Schools Community Development
51. New towns Demo for Relief in Los Angeles
52. Amendment to McKinney Act
53. Enterprise Zone Development
54. Enterprise Zone Homeownership Opportunities

LEAD BASED PAINT ABATEMENT

Terminations

55. Technical Assistance/Capacity Building

HEADQUARTERS RESERVE

Terminations

- 56. Community Development
- 57. Moderate Rehabilitation
- 58. Section 8 Certificates and Vouchers

Enclosure 4

PROGRAMS UNDER CONSOLIDATION REVIEW [47 PROGRAMS]

CROSS-CUTTING

Technical Assistance Programs

1. PH Development Technical Assistance
2. Modernization Technical Assistance
3. Revitalization Technical Assistance
4. Public Housing Technical Assistance
5. Regional Training on Drug Abuse in PH
6. Drug Information Clearinghouse Program
7. Youthbuild Mgt & Tech Assistance (CPD Administered)
8. Technical Assistance for State/Local Agencies
9. Technical Assistance for Community Housing Development Organizations
10. Technical Support for State/Local Housing Strategies
11. Prepayment Preservation Tech Asst & Cap Bldg
12. Indian Housing Technical Assistance

Service Coordinators

13. Public Housing Service Coordinators
14. FSS Coordinators
15. Elderly Housing Service Coordinators
16. Congregate Housing Services
17. Expanded 202 Service Coordinators
18. Project Based Sec 8 Service Coord

PUBLIC AND INDIAN HOUSING

Indian Development

19. Indian Community Development Program
20. Indian HOME Program

HOUSING

Single Family Insurance

21. Home Mortgage Insurance (Basic)
22. Home Mortgage Insurance: Disaster Victims
23. Rehabilitation Home Mortgage Insurance
24. Single Family Cooperative Program

25. Purchase of Coop Hsg Units from Coop Proj Morts
26. Home Mortgage Ins: Low/Mod Income Families
27. Mortgage Insurance for Condominium Units
28. Refinancing Section 235 Mortgages
29. Home Mortgage Insurance: Special Credit Risks
30. Misc Housing Insurance (Older Areas)
31. Graduated Payment Mortgages
32. Growing Equity Mortgages
33. SF Mortgage Insurance: Hawaiian Homelands
34. SF Mortgage Insurance: Indian Reservations
35. Adjustable Rate Mortgages
36. Home Equity Conversion Mort Ins Demo
37. Energy Efficiency Pilot Program

Multifamily Insurance

38. Cooperative Projects
39. Rental: Coop Hsg/Mod Inc & Elderly
40. Two Year Operating Loss Loans
41. Supp Loan Ins/MF Rental Housing
42. Equity Loans
43. Nursing Homes Intermediate Care/Boarding Homes
44. FHA MF Mortgage Credit Demo
45. Purchase of Refinancing of Existing MF HSG Projects
46. Single Room Occupancy Projects
47. Rental Housing in Urban Renewal Areas