

HUD'S MANAGEMENT CHALLENGES

HEARING

BEFORE THE

SUBCOMMITTEE ON HOUSING AND TRANSPORTATION

OF THE

COMMITTEE ON

BANKING, HOUSING, AND URBAN AFFAIRS

UNITED STATES SENATE

ONE HUNDRED SEVENTH CONGRESS

SECOND SESSION

ON

THE MANAGEMENT PROBLEMS AT THE DEPARTMENT OF HOUSING AND
URBAN DEVELOPMENT AND THE IMPACT THESE PROBLEMS ARE
HAVING ON HUD'S ABILITY TO MEET ITS MISSION OF PROVIDING DE-
CENT, SAFE, AND SANITARY HOUSING

JULY 24, 2002

Printed for the use of the Committee on Banking, Housing, and Urban Affairs



U.S. GOVERNMENT PRINTING OFFICE

90-605 PDF

WASHINGTON : 2003

For sale by the Superintendent of Documents, U.S. Government Printing Office
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HUD'S MANAGEMENT CHALLENGES

WEDNESDAY, JULY 24, 2002

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
SUBCOMMITTEE ON HOUSING AND TRANSPORTATION,
Washington, DC.

The Subcommittee met at 2:32 p.m. in room SD-538 of the Dirksen Senate Office Building, Senator Jack Reed (Chairman of the Subcommittee) presiding.

OPENING STATEMENT OF SENATOR JACK REED

Senator REED. The hearing will come to order.

Good afternoon. Let me welcome all of our witnesses to today's Housing and Transportation Subcommittee hearing on HUD's management challenges.

The Subcommittee is very concerned about the management problems at the Department of Housing and Urban Development and the impact these problems are having on HUD's ability to meet its mission of providing decent, safe, and sanitary housing.

The Department of Housing and Urban Development's programs affects millions of Americans every year. HUD provides rental assistance to 5.2 million people, and mortgage insurance to 7 million homeowners. HUD has helped revitalize over 4,000 communities, and it managed about \$545 billion in mortgages last year.

Unfortunately, two of HUD's programs—the Single-Family Mortgage Insurance Program and the Multifamily Rental Housing Assistance Program—make up 70 percent of HUD's business and are currently on GAO's "high-risk" list and considered "extremely vulnerable" to fraud, waste, and abuse.

GAO's concerns largely focus on issues such as staffing at HUD. HUD currently has 9,100 employees who oversee almost the same number of contractors, in addition to doing their own job. A current study by HUD itself shows that HUD is understaffed by at least 1,000 FTE's.

HUD is on the cusp of losing almost half of its career workforce by June 2003, because of potential retirements, and I think that is an important point to note—that half of your present employees could walk out the door next year. And these are the most experienced individuals, those who have been with the programs the longest, and those who have the most knowledge and experience of housing issues. This makes HUD's current decisions about staffing extremely critical.

We hope to explore today what HUD's plans are for retaining current staff, hiring new employees, and maintaining a core of expertise to lead the Agency into the future.

HUD also continues to have problems overseeing its thousands of contractors, especially in the FHA Single-Family Insurance and Multifamily Housing Programs.

In addition, since 1984, HUD has had problems with its hardware and software systems. These problems make it more difficult for HUD's staff to do their job and properly oversee contractors. These systems also keep track of billions of dollars in loans and rent subsidies. If these systems fail to meet HUD's needs, HUD will continue to have problems maintaining oversight over those contractors who provide services, keeping track of billions of taxpayer dollars, and defining the number of people who are helped by their programs.

Although I understand that new managers have the right to make management changes as long as they comply with Federal law, I am concerned that HUD's reorganization may jeopardize past improvements. HUD cannot afford to regress given its tenuous footing and continuing management challenges.

That is why we have asked GAO to come here today to talk about its findings. GAO has been a nonpartisan voice that continues to challenge HUD to make improvements. Senator Sarbanes, Senator Allard, and myself commissioned GAO to draft a series of reports on HUD, the first of which is being released at today's hearing.

We also will be hearing today from an officer of one of the unions representing HUD employees.

This Committee wants HUD to succeed and to meet the many challenges that it is facing. We want HUD to be able to effectively and efficiently provide families with important rental assistance and to help make the American Dream of owning a home a reality for many first-time and minority homebuyers. And that is why we are holding this important oversight hearing today.

I must also add that this concern has been consistent over many, many committees. I know my Ranking Member, Senator Allard, was equally concerned about HUD's management and that goes back several years, back to 1984 and before.

So let me just say that we are pleased and very delighted to have Alphonso Jackson, Deputy Secretary of the Department of Housing and Urban Development here today. Then we will hear from Mr. Stanley Czerwinski, Director of Physical Infrastructure of the U.S. General Accounting Office. Our third witness will be Ms. Carolyn Federoff, who is President of the American Federation of Government Employees, Council of HUD Locals 222.

Each of our witnesses has been asked to discuss HUD's management challenges, the status of the Administration's efforts to address these challenges, and ideas for further improvement.

When Senator Allard arrives, I will take the opportunity to interrupt at an appropriate moment so he may give his opening statement, and similarly, with my other colleagues. But at this point, Mr. Jackson, let me just further add that prior to your appointment as Secretary you were the President of American Electric Power-Texas, in Austin, Texas.

Let me say for the record that in addition to Deputy Secretary Jackson, we also have with us John Weicher, FHA's Commissioner; Angela Antonelli, CFO of HUD; Vickers Meadows, Assistant Secretary for Administration; Melody Fennel, who is Assistant Secretary for Congressional Affairs; and Roy Bernardi, the Assistant Secretary for Community and Planning Development.

We thank all of you for joining us today.

Mr. Secretary, please.

**STATEMENT OF ALPHONSO JACKSON
DEPUTY SECRETARY & CHIEF OPERATING OFFICER
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**

Mr. JACKSON. Thank you very much, Chairman Reed, and thanks to all of the Members of the Subcommittee.

I am thankful for the opportunity to appear before you today to discuss HUD's staffing, acquisition management, and information system challenges. I am happy to provide you with the update of the substantial progress our Administration is making to address these issues.

Under the leadership of Secretary Martinez, the first year of our new Administration was largely devoted to getting the management team in place, assessing HUD's management environment, and formulating viable strategies and plans to address the major management challenges and program risks that face the Department. In formulating our strategies and plans, we strongly considered the input on HUD's management challenges and program risks as described by the U.S. General Accounting Office, better known as GAO, and HUD's Office of Inspector General.

I believe our management team and the GAO share a common view that improvements to HUD's management of its human capital, acquisitions, and information systems are essential to addressing HUD's remaining high-risk program areas—the Multifamily Rental Housing Assistance and Single-Family Mortgage Insurance Programs—and to maintaining adequate control over other program activities previously considered high-risk.

The inclusion of our management challenges and program risks in the President's Management Agenda is indicative of the importance placed on these issues. We welcome the GAO's independent assessment, and I am confident that they will see that we are moving in the right direction to address our management challenges, reduce our program risk, and improve our program performance.

We also appreciate the advice, the counsel, and the constructive dialogue of the HUD union.

Since coming to office, I have made it a priority to meet with the HUD union representatives, with Ms. Federoff and the union there at HUD, monthly to discuss issues that are of interest to them and how we can better manage our HUD organization.

The first area I want to discuss is human capital management.

Human capital is HUD's most important and valuable asset. We have taken substantial steps to enhance and to better utilize our existing staff capacity, and to obtain, develop, and maintain the staff capacity necessary to support HUD's future program delivery.

As you are well aware, decisions were made and actions taken by HUD's leadership to undertake separate realignment of head-

quarters and field activities to better use our existing resources and to strengthen our program, and to deliver the services better. The details of this realignment are in my testimony and I am asking that it be submitted for the record.

Senator REED. Without objection.

Mr. JACKSON. Thank you, and I am more than happy to answer any questions that you have about the details of this realignment.

We have formalized our realignment structure, with the publication of delegations of authority in the *Federal Register*, and are providing current operating policies and procedures to support staff training and ongoing operations.

In addition, the Department has taken on other positive actions to improve HUD's human capital. For example, we have developed a Human Capital Strategic Management Plan in February 2002, to provide an overall framework of our human capital activities, developed a departmental succession strategy to assess the impact of potential human capital loss and results of skill imbalance, as you just noted.

Completed in 2001 the implementation of the new Resource Estimate and Allocation Process, known as REAP, to use as a baseline estimate and justify its staffing resources needs to allocate for the proper resources.

Significant improvements in our training, including e-training programs and their availabilities.

Expanded recruitment, retention efforts to take advantage of the excellent programs, such as the Presidential Management Intern Program, the new HUD Intern Program, the Legal Honors Program, and the Senior Executive Service Candidate Development Program to establish a pipeline from our perspective of well-qualified employees to meet the staffing needs and the anticipated skills shortages that will occur.

The second management challenge I would like to discuss is acquisitions management.

HUD is heavily relying on contract services in support of its current operations, as you just stated. HUD's contracted services go well beyond facilities management and other routine services to many core program functions. Given the extent and significance of HUD's contracted services, the Department has taken positive steps to address the acquisition challenges.

For example, the Department has reestablished a senior-level Contract Management Review Board, we call CMRB, to review and approve annual procurement plans for each HUD component, and to approve all contracts over \$500,000. The CMRB helps to assure that HUD's contract resources are used to address the Department's priority service needs.

The Department also is increasing the use of integrated program teams to improve the quality and the timeliness of procurement actions. The Secretary and I recognize that small businesses are vitally important to job growth and the economic strength of the country. The Secretary has challenged HUD to award at least 50 percent of its contracts to small businesses. As of June 30, 41 percent of the fiscal year 2002 contract dollars have been awarded to small businesses, and I am particularly pleased that women-owned

businesses accounted for 21 percent, well above the 5 percent that Congress has established.

The third challenge that I would like to discuss is information technology, as you so noted.

The adequate automated information systems are essential to the effective administration of HUD's large, diverse, and complex program universe. However, to be very candid and honest, we recognize that HUD has antiquated systems that are poorly integrated, inefficient, and inadequate for meeting many essential program management information needs. We have taken significant actions to address this challenge.

HUD integrated its IT capacity planning process with HUD's Enterprise Architecture and e-Government directives from the Office of Management and Budget. This will better assure efficient resource use and effective business results.

HUD's Enterprise Architecture initiative is designed to provide Department-wide documentation of HUD's current business and technology systems to better manage HUD's current information systems and meet future information systems needs.

HUD's Enterprise Security Program was established to provide protection for HUD's critical infrastructure, both physical and information systems. HUD's Office of Inspector General recognized both substantial control improvements in HUD's mainframe computer system.

As you can see, our efforts to meet HUD's human capital, acquisitions, and systems challenges have been very extensive. It will continue, and it must be strong. Our efforts to better manage our staffing, acquisitions, and information systems is important. We believe that we are making progress in the two remaining high-risk program areas—our Multifamily Rental Housing Assistance and Single-Family Mortgage Insurance Programs. We welcome the pending independent assessment of our progress through the GAO's biennial Government-wide review of major management challenges and high-risk programs.

In conclusion, Mr. Chairman, I would like to say simply that we have established a leadership meeting every month at HUD, and in this leadership meeting, we track the progress of each one of the President's Management Agendas and the GAO's agenda as to what we need to be doing.

The Secretary and I hold the senior leadership responsible for making sure that this accountability is talked about every month in our executive management meeting. Even more importantly, the Secretary and I firmly believe that in not only recruiting new staff at HUD, but also we have not over the past years trained, re-trained, or empowered our employees to do their job in an outstanding manner.

Over the last 18 months, the Secretary and I have traveled extensively to field offices to meet our staffs. As you know, almost two-thirds of HUD's staff is in the field and the operations there are critical. Some of the HUD field offices, as I have been told when I was in one city, had never seen a HUD Secretary or a Deputy Secretary in 21 years.

We believe that the strength of this organization is in the field and if we do not show up in the field, as well as show up at the headquarters, we will have and continue to have serious trouble.

I have talked during this period of time, Mr. Chairman, to more than 1,200 HUD staff in the past 18 months, and we have seen the morale in the field grow stronger every day.

It is my belief that as the Deputy Secretary and the Chief Operating Officer of the Agency, that not only am I to manage our staff here at HUD Headquarters, but also our job is to make sure that the staff in the field realize that they are just as intricate a part of HUD as the HUD Headquarters. And we are making every effort to do that.

Last, the Secretary and I have made a commitment that we will enter no city without visiting with the HUD staff, whether it is field or regional staff; and to date, the Secretary and I have kept that commitment.

So, I am glad to be here and I will be happy to answer any questions that you may have.

Senator REED. Thank you very much.

Prior to introducing the other panelists, let me recognize the Ranking Member, Senator Allard.

STATEMENT OF SENATOR WAYNE ALLARD

Senator ALLARD. Mr. Chairman, thank you. I apologize for being late. The votes that we had moved my schedule back a little.

I want to congratulate you on holding this hearing. I believe that oversight is one of Congress' most important functions. I think all too often, this critical responsibility is ignored. It is nothing glamorous, but very important. Frequently, you do not get any credit for holding these kinds of oversight hearings.

This hearing is a helpful way, I think, to perform our charge. When you and I changed places, I think I had some 10 oversight hearings at that particular time. And Mr. Czerwinski frequently showed up.

I think there were some favorable results that were happening as a result of that. I look back at 1997, when HUD described itself as a poster child for inept government. We had reports coming out of the GAO and the Inspector General. And since that time, the Department has undertaken a variety of initiatives designed to transform the Agency. GAO has reported that HUD has been making creditable progress toward its goal of reform. It has reduced the number of HUD programs deemed to be high-risk.

Although HUD has made considerable progress, Mr. Chairman, much remains to be done. Last year, I requested that GAO conduct a comprehensive evaluation of the Department's progress, HUD's ability to sustain improvements and changes are still needed.

As always, I appreciate the work that the GAO has done for this request. In fact, today, they are releasing a report on HUD's human capital issues as a part of my request. It is my hope that their findings will be helpful to the Congress as we consider authorization and appropriation matters concerning HUD. Additionally, I believe that this body of work can be extremely helpful to HUD. I am hopeful that they will work closely together to identify and implement necessary improvements at the Department. In this

matter, HUD can become a strong Agency that meets its mission with effectiveness and efficiency.

I would like to thank our witnesses for being here today. I am pleased that Alphonso Jackson of HUD is here to update us on the Department's status. I know that you have had a very busy schedule personally, and I appreciate your taking the time to come forward with this important responsibility.

I also welcome Carolyn Federoff, the President of the American Federation of Government Employees, Council 222. Carolyn, your perspective as a HUD employee will be helpful as we discuss HUD's reforms.

Finally, I want to extend a special welcome to Stan Czerwinski of the General Accounting Office. Stan has been an invaluable resource for me and my staff during my years as Chairman and now as Ranking Member. I had the pleasure of receiving testimony from Stan on a number of occasions. His insight and expertise has been extremely helpful.

Unfortunately for this Subcommittee, I understand that Stan is probably testifying before us for the very last time in his current capacity. Next month, you will be Comptroller of GAO. I want to congratulate you on that. And while I am sure that you will be incredibly successful in your new position, we are going to miss you here at the witness table.

Stan, thank you for your hard work on behalf of this Subcommittee. And again, thank you, Mr. Chairman, for convening this oversight hearing. I look forward to hearing today's testimony.

Senator REED. Thank you very much, Senator Allard.

As I pointed out in my opening remarks, oversight activities are not unique to this Chairmanship. You were very active as an oversight Chair, and we are following through with some of the issues that collectively, we were pushing 2 and 3 years ago.

Senator ALLARD. Yes. Very good. Thank you, Mr. Chairman.

Senator REED. I want to join Senator Allard in both recognizing Stan Czerwinski, and thanking him for his valuable testimony on many different occasions, and wishing you well in your new position as Comptroller. And again, you will probably not be here as you are now. Mr. Czerwinski is testifying in his capacity as the senior GAO expert with respect to housing programs in the U.S. Government. He will broaden that expertise as Comptroller.

So, we will get you back here in some guise, Stan.

[Laughter.]

Please, go ahead.

**STATEMENT OF STANLEY J. CZERWINSKI
DIRECTOR, PHYSICAL INFRASTRUCTURE
U.S. GENERAL ACCOUNTING OFFICE**

Mr. CZERWINSKI. Mr. Chairman, I happen to notice that you are on the Appropriations Committee, in my new position, I will be working closely with Appropriations, so we will be still talking.

Senator REED. I have become very popular recently.

Mr. CZERWINSKI. Yes, you have. Mr. Chairman and Mr. Allard, before I begin, I would like to express my appreciation for this Subcommittee's diligent oversight. That is a theme that you are going to hear from me during this hearing.

Your work is instrumental to improving HUD. You are asking the right questions and we are seeing results at HUD because of that. And I think there is evidence of that today, with the Deputy Secretary, you, and GAO agreeing as to what the top management challenges are.

I also wanted to mention that it is really crucial that this oversight is bipartisan, as you have done, going back to the leadership of Mr. Allard and now with you, Mr. Chairman. It is very gratifying to us to see you holding this oversight hearing. I know oversight is not glamorous, but to the GAO, it is our lifeblood.

In my testimony today, I want to update our high-risk assessment of HUD, then outline what we think still needs to be done.

You may recall in the mid-1990's, GAO designated HUD as a whole, high-risk, the only Agency in Government to be designated that way.

In our last high-risk series of January 2001, we noted the credible progress that HUD had made. As a result, we no longer said that the whole Agency was at high-risk, but instead, two major program areas. As you noted, Mr. Chairman, these two areas comprise about 70 percent of HUD's budget—Single-Family Mortgage Insurance and Multifamily Rental Housing Assistance.

In fairness to HUD, I want to note that HUD faces inherent risks that most agencies in Government do not. For example, it has about \$1 trillion of exposure on the financial markets through FHA and Ginnie Mae. Also, in carrying out its mission, HUD relies on third parties, including about 10,000 lenders, 25,000 appraisers, and about 12,000 subsidized landlords.

We have made, and to its credit, HUD has implemented, a number of recommendations to address deficiencies in lender and appraiser oversight, property disposition, tenant income, and property inspection. Yet, problems persist.

If we were to issue the high-risk report update today, we would still find that Single-Family Mortgage Insurance and Multifamily Rental Housing Assistance to be of high-risk. This is, in some sense, because the programmatic fixes are really addressing the symptoms rather than the root causes.

As you noted, at the request of this Committee, for the past 2 years, we have been focusing on the root causes. Just to reiterate what has already been said today, the top three root causes that we all agree on are human capital, acquisition management, and program and financial information systems. As the chart to your left shows, we see those three root causes sweeping through all of HUD's programs.

Mr. Chairman and Mr. Allard, you released our report today on human capital. I would like to briefly summarize what that report says. Simply said, HUD does not have the right people, with the right skills, in the right places, to do the right things.

As you mentioned, HUD has the additional challenge, or maybe it is an opportunity, of having more people who are eligible to retire than any Agency in the Federal Government. This means that it is critical for HUD to determine the mission that it wants the Agency to have now and in the future, decide what skills it needs to carry out that mission, assess what skills it has now and then match what it has with what it needs.

I guarantee that there will be a gap. There is no question about that. HUD then needs strategies for filling that gap. These strategies include recruiting, retaining, and training staff.

As Mr. Jackson noted, HUD has taken the first step with REAP. REAP is a snapshot. It provides a picture of what the Agency has today in terms of skills and needs. However, because as you mentioned, Mr. Chairman, HUD could be losing about a thousand people each year, HUD must be looking to see how it will fill those losses. The answer to that question will determine whether HUD as an Agency takes the shape that its leadership and the Congress wants it to take.

As you may recall, HUD had about 50 percent more staff a decade ago than it does today. Over that decade, HUD's responsibilities have not diminished. Instead, HUD relies much more on contractors. In fact, contractor reliance, as measured by spending, has grown 62 percent within a 5-year period. This reliance, without proper oversight and monitoring in place, can result in significant problems and abuse.

At your request, and again, you are requesting all the right things—we will be reporting on acquisitions this September. We will be including concrete examples of contracts gone wrong.

What I would like to do today is give you an interim look at the findings of our work. The bottom line is that contracting problems are caused by three things at HUD.

The first is inadequate monitoring. HUD's monitoring does not hold the contractors accountable. The second cause of contracting problems goes back to the issue of human capital. You will see there is another theme, that these root causes are not independent. One affects the other. Because they have fewer people, they rely on more contracting. Because they rely on more contracting, it exacerbates the human capital weaknesses. What we have found is that HUD all too often lacks the right number of employees in the right locations, with the appropriate skills and training to oversee contractors. Finally, HUD has no single information system to accurately track contractor obligations, milestones, and performance. This leads me to the third area and the final top management priority—financial and programmatic information systems.

As you can probably guess, you have requested that study also and we will be reporting to you by the end of the year, but I want to give you a simple bottom-line today. In layman's terms—HUD's systems do not talk to one another. Sadly, this is not a new problem. We first reported it 20 years ago. As a result, even if HUD has the right people with the right skills in the right places, their oversight is going to be difficult without the information they need.

For example, if a HUD employee wanted to visit or evaluate a lender, he or she would have to get data on the lender's address from one data system, the loan volume data from another system, default and claim data from yet another system, and finally, complaint information from another system.

The two key thoughts I want to leave you with on information systems are systems integration and user needs. HUD must make its systems compatible. In making the systems compatible, emphasis has to be given to doing it in a way that addresses the needs of the users to do their jobs.

I would like to close by saying that in my 5 years directing the GAO's housing work, it has been an honor to assist this Subcommittee. You have provided quality oversight and that makes a big difference.

Our teams are over at HUD every day and we see the response at HUD because of the kinds of questions you are asking. And again, I think this hearing is a real example of all of us agreeing on what the major issues are.

Also, your staffs have shown professionalism and dedication. Day in and day out, we deal with your staffs, on both sides of the aisle. I have not seen staffs of that quality in my 20 years in Government. It has been an honor and a privilege to work with you.

I would like to leave you with one thought. And that is, we would ask you to keep watching and to working closely with HUD and please continue to ask GAO to help you do it.

Senator REED. Thank you very much, Mr. Czerwinski, for your excellent testimony. Again, we thank you for your service to the Committee and to the GAO. And we look forward to working with you in a different capacity.

I have been remiss because I should have initially asked everyone to stay within the 5-minute time limit and that your full statements would be made a part of the record. But, through telepathic means, both Secretary Jackson and Mr. Stan Czerwinski did that.

Now, we are pleased to introduce Carolyn Federoff, who is the President of the American Federation of Government Employees, Council of HUD Locals, 222. The Council is HUD's largest employee union, representing approximately 6,000 employees. And she has been President since May 2001.

Welcome, Ms. Federoff.

**STATEMENT OF CAROLYN FEDEROFF
PRESIDENT, AMERICAN FEDERATION OF
GOVERNMENT EMPLOYEES, AFL-CIO
COUNCIL OF HUD LOCALS, 222**

Ms. FEDEROFF. Thank you very much, and thank you for inviting us to speak for HUD's career bargaining unit employees.

First, I want to thank both of my fellow panelists here.

The Deputy Secretary has, in fact, invited us to meet with him monthly to discuss employee issues, and we are very appreciative for that opportunity. And the GAO, especially with your leadership, has made recommendations that our employees always eat up. They like when the GAO reports come out. They want to be able to read them. They want to see what our Agency is doing and what we can do better.

So thank you very much.

My written testimony, which I would like to have submitted for the record—

Senator REED. Without objection.

Ms. FEDEROFF. —is a detailed look at HUD's human capital management issues and oversight of contractors. But my oral testimony is much more pointed.

HUD employees have been concerned for a long time with our designation by GAO as a high-risk agency. But even without this designation, we would be concerned for the long-term viability of

HUD programs. We believe that no administration can resolve these issues without the sustained support of Congress.

HUD's programs are largely bricks and mortar. They are long-term investments. This is one of the distinguishing characteristics of the challenges that face HUD.

The programs that Congress creates have a lifespan longer than the lifespan, or rather, the careerspan, of a Federal employee. So that a Section 202 development that is built today will continue to have a HUD mortgage in place in 2040, well after the current employees at HUD have retired.

Furthermore, the nature of developments is such that they either have problems at the very beginning of their lifespan or they have problems at the very end of their lifespan. So it is very important to have staff continuity, to have the sharing of institutional memory from one generation of HUD employees to the next generation of HUD employees. And that is crucial to problem-solving, when problems arise.

Now all American employers at this point are facing the impending retirement of the Baby Boom generation. So this is a problem that is not unique to HUD. But because of the unique programs that HUD is responsible for, that problem, in fact, can be a crisis.

Currently, HUD only fills vacancies after they occur, frequently months or even years after a seasoned employee has left.

In our written testimony, we recommend no reduction in HUD staffing ceiling. But the truth is, if 4,500 employees are projected to, or are eligible to retire within the next 5 years, we need to hire 2,000 employees within the next 2 years. We have to hire this staff now in order to permit mentoring and a transfer of knowledge. We cannot replace journey-level staff with entry-level staff.

This is a task that no administration can accomplish without Congressional support. As stewards of the public trust, and as HUD employees, we do not want to hear that it cannot be done or that we have deficit budgets.

It can be done. We know this because the money is already being spent. It is being spent on contractors. With the knowledge, and sometimes the express approval of Congress, HUD spends more money on contractors than it would cost to hire HUD employees.

The Section 8 Contract Administration contracts alone, which are part of the rental housing assistance contracts, would cover 2,500 additional HUD staff. These contracts are costing us \$220 million a year now, and when they are in full force, will cost us \$280 million. Now the contracts replace the need for a maximum of 1,250 staff. And this is only one example of many examples.

We need Congress to work with HUD and stop playing smoke and mirrors with the budget.

Our written testimony includes recommendations that would assist recruitment and retention. It would assist the use of retention programs, such as loan forgiveness, child care subsidies, extend permanent positions to its interns, reform an overly bureaucratic human resources department. But these are Band-Aids. They will make HUD a better place to work for the workers that remain. But we need more than Band-Aids. We need whole blood. We need staff and we need them now.

Congress can make a difference between the long-term success of the programs that it authorizes or it can assist in their failure.

Thank you.

Senator REED. Thank you very much, Ms. Federoff.

Thank you all for your excellent testimony. And I think you have laid out in very graphic terms the serious challenges.

As Mr. Czerwinski pointed out, HUD is the most vulnerable agency to retirements in the whole entire Federal Government. And thinking that if even a third or a half of the retirements take place, that will have a crippling effect on the Agency, an Agency that is responsible for over \$500 billion in mortgages.

The consequences of mismanagement are not simply that people do not get the full services that they need and deserve. But it could be huge financial consequences for the Federal Government. So this is a very serious challenge.

Mr. Secretary, we all agree on the critical issues—human capital, information technology, and oversight acquisition of contractors. Do you think that the budget that was sent up this year to Congress reflects the seriousness of these challenges, reflects the potential loss of thousands of employees and the fragility of the Agency at this point?

Mr. JACKSON. Before answering, Mr. Chairman, I want to say that I appreciate both persons' testimony because I think that they specifically zoomed in on the points that are very critical to us.

In answering your question, I will simply say, I think the budget reflects that we are trying to address the needs that the GAO and the unions have consistently told me. That is, human capital, information technology, succession plans, because they are critical.

As Carolyn will tell you, often I have said to her, I would hate to see a third of our employees leave on our watch—that is, the Secretary and my watch—because I think it would be absolutely devastating.

I think if we go back to 1995, when we had a situation where there was no thought, not methodically or otherwise, and we were forced to cut HUD's staff.

The young employees that Ms. Federoff is talking about that would have been the middle employees this year, were taken away. In the process, it left seasoned employees. We were in a hiring freeze. It did not occur.

But what we expected out of the employees at HUD, and I think, under the circumstances, with my traveling in the field, these employees have done an excellent job of maintaining HUD as best that they could, with the limited resources. We expected them to do the same amount of work with an increased budget.

I do believe that if, as we have said to OMB and to GAO, we have a budget that, if given the priorities to hire people to do some of the job, and to terminate some of the contractual arrangements that we have, the third-party contractual arrangements, I truly believe that we can hire the staff that can be trained.

I think that one of the things that Ms. Federoff said that was so important, which I did when I was running AEP, which was a \$13 billion corporation, when we realized that we had somebody leaving the organization, we brought someone in to be trained by that person. That is not the way that we have operated at HUD because

of the hiring freeze. We believe now in our process of trying to recruit and hire new staff members, staff members who have the expertise, to give them an opportunity to work with those persons who have this expertise who will be leaving us within the next 3 years.

So, I would say, yes, the budget does reflect it. And the Secretary is very concerned that we address the needs of human capital, as has been denoted to you today, we address the needs of information technology.

I cannot come here, as Stan can tell you, and contradict him, I am not in the position to do that. I am in the position to listen to him. And that is why we have periodically worked with him, without the insistence of being told by Congress.

I just believe that Government, as when I ran the corporation, has two functions. That is, to have the profit and shareholders' return. I believe that the profit is saving the taxpayers money. The shareholders' return is making sure that the taxpayers get what they have paid for. And I believe that with the help of GAO, with the support of Congress, as Ms. Federoff has said, and with the union's help, that can be accomplished, and I think the budget reflects that.

Senator REED. Well, as I understand it, Mr. Secretary, HUD has not asked for any additional dollars for staff in fiscal year 2003. And going to Ms. Federoff's point, if we are going to make any serious transition in the face of these retirements, you have to get the people on board now so that at least they have a year or two to learn what they can from the hands.

Mr. JACKSON. I agree. Let me say this to you on that.

We are in the process, as Ms. Federoff knows, of hiring 400 new employees. I won't say new because some will come from internal promotion. But we are in that process. We have also asked OMB for another 400 next year, to get us up to the 9,100 level.

What we have decided is this, we know that we have a shortage. But I think that REAP was the beginning. We need to look at this systematically and thoroughly, and say, where is it that we have serious problems of losing people, whether it is in CPD, community development and planning, whether it is in housing, whether it is in public and Indian housing, and begin to replace those people systemically.

Yes, I am very concerned. I cannot say to you today we are not. But I do also believe that in the process, it is not necessarily from my perspective more money. I think that if given the opportunity, as I have said on a number of occasions to OMB, to utilize our money more efficiently—that is, to end some of the contracting that we do—that I think we can address these needs clearly.

Senator REED. Thank you.

Mr. Czerwinski, you might not have a detailed knowledge of the budget submission, but you certainly, I would suspect, have a feel for the kind of money we are talking about—getting a well-trained workforce in place and staying in place despite retirements, improvements in hardware and software and computer systems, and active oversight of contractors. That is a lot of money, even if you are efficient and you get more flexibility, I would suspect. Do you have any thoughts?

Mr. CZERWINSKI. Yes, Mr. Chairman. Ultimately, HUD may need more money. But the key is before they can come and ask for more money, they need to have a credible plan and a vision for what they are going to do with it.

Let us use human capital as an example.

As we agree, REAP, is a first step, a snapshot of what is going on today. What HUD needs to do, though, is to project what it wants the Agency to look like, and then target the shortages and gaps to that vision.

They need a recruiting strategy, targeting certain schools, certain types of professions. Then, once they have that, they have to implement it. And that is probably ultimately going to take money. They need to have a compelling plan before, in all fairness, they can come and ask you for that.

Senator REED. Mr. Secretary, when can we expect to have the details of that plan from HUD that Mr. Czerwinski said?

Mr. JACKSON. Very soon. We are in the process of developing a 5-year human capital plan because that was one of the things that the Secretary and I initially said. We did not have one, and again, Stan knows it. We have been discussing that, not only with GAO, but also with OMB, and with the union. And I am convinced that we will have that very soon for you.

Senator REED. Let me ask, before I turn to the Ranking Member, Ms. Federoff, if she has any comments on this line of discussion we have had?

Ms. FEDEROFF. Well, two comments. One is that I think the Agency is hampered by a severe reduction in their human resource staff in the 1990's. So that the Agency restructured in 1995 with the goal of going from one human resource manager or personnel specialist per 60 employees down to one to 100. I think that loss of staff has made it very difficult for this Administration to quickly respond to the need for a human capital plan. I think that focusing staff in those areas would help the Agency be more responsive.

The other item is that we would certainly support the Deputy Secretary in giving HUD the ability to transfer dollars that are spent on contractors to S&E. My familiarity with the budget is that there is not that flexibility, and it would have to be specifically authorized. And we would certainly support that authorization.

Senator REED. Thank you very much.

Senator Allard.

Senator ALLARD. Thank you, Mr. Chairman.

I would just comment on the lack of compatibility between the various computers that we have in HUD. Of all your testimony, I think that that is one of the things that is the most disappointing to me. It seems to me like it is one of the easiest things to be able to rectify.

I can understand sometimes the problems with compatibility maybe between the IRS and maybe the CIA or something like that. But there is an effort within the Government to try and even make those compatible. Isn't there a relatively quick solution to this, or is this more complicated than just what appears on the surface?

Mr. JACKSON. I will say this to you, Senator, that when I walked into HUD after running AEP, I was absolutely not only dismayed

but also shocked that there was no interaction between the information technology systems.

We immediately went to the point again with the help of GAO, OMB, and I said we cannot continue this process.

We are in the process right now of planning. We have one area that we are addressing which we call the information technology system contract out on the streets, and we should be getting the results back very soon.

Another thing, I think it is imperative and it is relatively simple. But I do not think we can again do what we did in 1995 without being very methodical, cutting people out of the staff at HUD.

I believe that if we could do this in a very systematic manner, we will be able to make sure we have an information technology system within a couple of years that interacts and talks to each other.

I must tell you that, as you have just stated, I was absolutely shocked when I came here, having a system from a corporation that we talked to each other all over the country. AEP was the largest electrical company in this country. Yet, we could talk to each other from Texas all the way to Washington, DC. And not to have that in the Federal Government was absolutely shocking. But we are moving expeditiously to make sure we have that and we are working with GAO and OMB to make sure that that is done.

Senator ALLARD. Mr. Czerwinski, I think that my colleague here brought up some issues related to the budget. So, I was thinking back on our testimony that we had the year before last maybe. At one point in time, we had \$10 billion in unobligated dollars in HUD. Are those unobligated dollars still there, as far as you know?

Mr. CZERWINSKI. There are still sizable numbers, probably closer to \$5 billion.

Senator ALLARD. There is still a sizable number there.

Mr. CZERWINSKI. Yes.

Senator ALLARD. You wouldn't still say necessarily as much as \$10 billion, but there is still a sizable number there.

Is there any reason why you have to ask for an increase in HUD spending when you have unobligated dollars in HUD there? Can't they be used for current programs? Is there any reason why that cannot happen?

Mr. JACKSON. I think that, from my understanding, the monies designated for specific programs, once they are allocated—

Senator ALLARD. Yes, but this is unobligated. I had the impression that unobligated means that they are not necessarily designated for any specific program.

Mr. JACKSON. From my understanding last year, all unobligated monies—not all, but most of the unobligated monies had to be returned back to Congress. Therefore, I would say to you, Senator, that I believe that if given that authority, as I said previously in my testimony, I am not convinced that we necessarily need more funds. I think that Stan spoke to that. If we are given the right to utilize the fund in a very efficient and effective manner, to hire and train new staff, clearly, I think we can do a lot of it within the present budget.

Senator ALLARD. So, you are telling me at the end of each fiscal year, unobligated dollars get held in the Department? They do not get transferred over to the next year?

Mr. JACKSON. I am not sure. Let me ask that.

[Pause.]

If they are not obligated, they do not stay with the Department. I did not think so because I know we had to return unobligated monies last year.

Senator ALLARD. Stan, do you have a comment on that?

Mr. CZERWINSKI. My understanding, Senator Allard, is that most of the unobligated monies are what is called no-year budget authority. They sit until the Congress or HUD takes action to essentially sweep them up. A certain amount is swept up in most years. But there is also amounts that sit.

If the question you are asking is, could those monies be used for other purposes, yes, they could, but it would take a reprogramming authority given to HUD to do that.

Senator ALLARD. Does that go through the appropriations bill or is that an authorization?

Mr. CZERWINSKI. Appropriations.

Senator ALLARD. The appropriations does that. So is the budget request now, does that reflect recycling or reusing those unauthorized dollars that are sitting there?

Mr. JACKSON. Let me say as an answer, some of them reflect years that, clearly, the money must be spent.

We have in Section 8 a program that is obligated for project-based for a 30-year period of time. All the funds are not obligated at one time, but clearly, they are going to be spent. Those funds that are not in a situation of Section 8, I would perceive, as Stan has said, that if they are reauthorized, yes, we can use them.

Senator ALLARD. Okay. If we have a problem of not enough dollars there, Mr. Chairman, to meet some of these needs, it might be that we just need some simple language in there that would allow them to handle the unobligated dollars that are sitting there, if there is any that are sitting there. And I do not know. How do we find out what that unobligated amount is as we move toward the end of this budget year?

Mr. JACKSON. I would be happy to submit a detailed report to you if you would like to know that.

Senator ALLARD. Would you do that, Mr. Jackson?

Mr. JACKSON. Yes, I would.

Senator ALLARD. I would appreciate it.

Senator REED. As I understand it, the Department has to request a reprogramming from the Appropriations Committee, which would have to be cleared by the Office of Management and Budget. I would be very happy to push that along if we got it up here.

Senator ALLARD. Okay. Now the other area that I want to talk a little bit about, and this shouldn't surprise any of you because any time you have testified in front of this Committee, I always ask you about the Government Performance and Results Act. I think it is important that we work on it—I am glad that the President seems to be moving in that direction for all agencies. But the Results Act requires agencies to utilize outcome rather than process-based management.

I was extremely pleased to see that the President's fiscal year budget of 2003 request begins to incorporate the next step, which is outcome-based budgeting. And this is for all of you—would you please comment on the importance of the Results Act for an agency in transition like HUD?

Mr. JACKSON. I think it is absolutely important and imperative. Again, I am not one to cast aspersions, but I have so often said that, and I have said it to you, Stan, that if I had run AEP as we have run HUD over the years, I wouldn't have lasted 4 months as President of that company.

So, I do believe that outcome-based analysis is the most crucial thing to know exactly where you are going. And that is why I am pleased that we had set some processes in place to judge that. But the President's Management Agenda specifically sets the objectives of what we must meet to do that.

We have, as I said to Senator Allard before you came in, put in place a monthly executive staff meeting to know where we are. We are sharing that information on a monthly basis, not only with OMB, but also with GAO, and we are asking for their input. I do think that it is absolutely imperative.

Senator ALLARD. So, Mr. Czerwinski, this is not a new question for you.

Mr. CZERWINSKI. No. Senator Allard, I was thinking back to the start of this hearing when we talked about oversight not being glamorous. The only thing less glamorous than oversight—

[Laughter.]

—is GPRA, so thank you very much for embracing that.

[Laughter.]

Of course you know, GPRA is one of GAO's mantras. The President's current budget embraces GPRA more than any prior budget.

Having said that, going to the question you asked; is GPRA important for an agency in transition? Absolutely. You need to have a vision of where you want to go, link the vision to specific goals that are measurable, then evaluate against those goals and measurable targets, and act accordingly. That is really what is going to drive the budgeting.

Yes, that is crucial.

Senator ALLARD. Ms. Federoff.

Ms. FEDEROFF. Well, one of the things that we need to keep in mind when we look at results is not only risk that has been taken, but also risk that has been avoided. I am a field employee and there are times when a development comes in and you work and you work it and then you just decide, no, this one we are not going to do. It just shouldn't be done. I think that that is also a result that should be taken into consideration in any review of results. Not just housing units built, but are they quality housing units? And were the ones that did not get built, in fact, should not have been built?

Senator ALLARD. You do not think that GPRA is a good idea?

Ms. FEDEROFF. No, I think it is a fine idea. I just think that we have to think about results in terms of risk.

Senator ALLARD. Okay. Thank you, Mr. Chairman.

Senator REED. Thank you very much, Senator Allard.

For the record, there is a memorial service for Officer Chestnut and Detective Gibson, who gave their lives in the defense of the Capitol on this day in 1998. It is at 3:40 p.m. I want to ask a few more questions, then recess, if I may, attend quickly, and return.

Let me just start our second round.

Mr. Secretary, going back to this whole issue of using what you have rather than getting more. I understand that HUD hasn't been able to hire the 91 full-time equivalents that you are authorized in this year or last year's budgets, that you are 300 short. Is this a conscious decision or is this suggesting the problems you face even if you had the resources to hire people, which begs other questions. What do we have to do to make this an attractive place to work?

Mr. JACKSON. I think that is a very excellent question, Senator. My answer to that is that, first, we have, during the Department realignment, that took a substantial portion of our time because, initially, we made some very—we made some mistakes in the sense that we did not initially consult with the union, which I think was absolutely a mistake. In the process, we began to consult to make sure that we get the input as to how best to redeploy and realign. And it took a little longer than we had expected.

Second, we did not have at that time an Assistant Secretary for Administration in place, nor a Director for Human Resources.

Going back to Ms. Federoff's statement—nor did we have in place the ratio that I felt was necessary to address the needs of hiring up as quickly as we wanted to. We have put that process in place now, which will carry over to 2003. We believe that we will reach the 9,100 without any problems.

I take full responsibility at that point for not being cognizant of the fact that during the early part of the process, we did not confer with the union and in the process, that we did not have an Assistant Secretary, nor a Director of Human Resources. In fact, we hired the Assistant Secretary this spring and we just hired within the last month a Director of Human Services. So, we are in the process to rectify that.

Last, we are hiring up in human resources. And I must say that I was not really aware of that until it was brought to my attention where we were with the union.

The union, in my case, and in the case of HUD, has been very helpful in making sure that we understand the problems that we are confronted with. I do believe that in the year we will do that. But we did not do it and it was not an effort on our part not to do it.

Senator REED. Thank you, Mr. Secretary.

Ms. Federoff, before I recess for a brief interlude, do you have a comment?

Ms. FEDEROFF. Our experience with the intern program is that we had many, many more applicants who were interested in working for the Agency than we had positions available.

Mr. JACKSON. True.

Ms. FEDEROFF. So there is a real interest. Our concern with the intern program is that those employees need to be extended permanent positions as soon after their 1-year traditional probationary period as possible, so that during their second year, they do not spend the bulk of their time looking for other employment.

Mr. JACKSON. We agree with that.

Senator REED. At this time, I would ask that the Subcommittee stand in recess subject to the call of the Chair, and I will endeavor to come back as quickly as possible.

Thank you.

[Recess.]

Senator REED. Let me call the hearing to order and thank you all for your indulgence in letting me get over to the floor for that moment of silence.

I have two areas of concern I want to address. I am sure, though, there might be other questions and the record will remain open for a number of days. So, you might receive some written requests for further information, Mr. Secretary.

Mr. JACKSON. Thank you, Mr. Chairman.

Senator REED. Mr. Czerwinski and Ms. Federoff.

One of the critical issues that we all agree upon is the need for accountability of the consultants and contractors that HUD has.

I was struck by some of the information about the single-family program. GAO reports that HUD lost \$1.9 billion in fiscal year 2000 on the sale of foreclosed homes that it had insured, greater losses than it had when HUD career employees were performing the function. Although it might be appropriate to contract out those functions, they clearly need better oversight.

It has been 5 years since FHA implemented its new loss mitigation program. Again, what really prompts my concern is this has been the hottest real estate market I can remember in my life. I know that HUD insures properties not in the most affluent neighborhoods, but in some difficult neighborhoods. But the magnitude of this loss is quite sobering because if the real estate market ever started trending down, this \$1.9 billion could accelerate.

It exemplifies the problem that we have talked about all afternoon. What steps are you taking to ensure that these contractors are doing their job and they are not causing huge losses that we have seen in this particular program?

Mr. Secretary.

Mr. JACKSON. If it is fine with you, Mr. Chairman, I will defer that specifically to the FHA Commissioner, Mr. Weicher, to answer for you, please.

Senator REED. Sure. Commissioner.

Mr. WEICHER. Thank you, Mr. Chairman.

We have typically had losses on our REO ranging from \$1.6 billion to \$2.5 billion from year to year. The reason we have losses, that is why it is REO. It is not worth what we have insured, and so we lose money on it.

Our loss per claim, our loss per dollar, has been dropping. It is now down to under 30 cents per dollar. Four or 5 years ago, and before that, it was running at least 39 cents a dollar and on up to 45 cents a dollar. The loss per claim has been down in the last 3 years. We are not going to break even on the REO ever. But we are doing a better job in minimizing the losses to the fund from year to year.

Senator REED. Thank you, Mr. Secretary.

Mr. Czerwinski, might you comment on this whole issue of contractor accountability in the single-family program and the other programs, and the Secretary of the FHA's comments?

Mr. CZERWINSKI. Yes, Mr. Chairman. The way we look at it is on a per-property basis. Roughly, you are talking about a \$30,000 loss per property. FHA turns over, say, 50,000, 60,000 properties a year. That is how you come up with approximately \$1.9 billion. The key to avoiding this loss is two-fold.

The first key is loss mitigation. If you can stop the properties from going into that process, you obviously are not going to suffer that loss. Mr. Weicher is exactly right. Whenever you get a property into the disposition area, you are going to lose money. The second key is once they get in, though, you want to minimize the loss.

There are a couple ways to do that. One is incentives to shorten the timeframes. The longer the properties sit in inventory, the uglier they get and the lower they sell for. Also you want to maintain the properties because the better they look, the more money you will get for them. In addition, the properties that sit around, and end up contributing to neighborhood blight.

The incentives to contractors should be to sell them quickly and to maintain them during this process.

Mr. JACKSON. We are addressing both of those issues.

Senator REED. That is my question. And Mr. Weicher wants to comment, too.

Mr. JACKSON. We are addressing both of those.

Senator REED. Mr. Secretary, at your discretion.

Mr. JACKSON. Please.

Senator REED. Around here, you cannot go wrong just calling for Secretary.

Mr. WEICHER. Mr. Czerwinski is right, it is important to get the properties out quickly, and we have been doing that. Three years ago, we had properties in inventory for 8 months on average before we sold them. Now it is down to under 6 months on average before we sell them.

Three years ago, our inventory was 47,000 properties. Now our inventory is 29,000 properties and the inventory has not gone up during the recession. And that has never happened in the history of the Department.

We certainly want to do as good a job as we can on our REO. We know that the property, as we own it and it is in a neighborhood and it is not helping the people in the neighborhood to have this. We are doing our very best to get that property out as quickly as we can.

And if I might say, on loss mitigation, 3 years ago, we assisted 10,000 homeowners through loss mitigation. Two years ago, 30,000 homeowners. Last year, 50,000 homeowners. This year, we are on track to help 70,000 homeowners, and it is an extremely important tool in helping people stay in their homes and help the neighborhoods they live in.

Senator REED. Thank you. If I could just note, though, because Secretary Weicher made the point about it. This is a very unusual recession because the housing market has shown not only no damage, but also it seems to be bounding along.

Mr. Secretary.

Mr. JACKSON. Mr. Chairman, this is one of the areas that, initially, when we started meeting with Stan and GAO, we told him that we were not going to debate or argue with him about. In fact, I could not understand why anybody was arguing.

They were absolutely correct that the approach we had taken and the Assistant Secretary has taken on behalf of the Secretary and myself is a very proactive approach. And so, I will say that it was a very excellent question. But we are really trying to minimize as much as we can. I think that Stan was correct in conjunction with Assistant Secretary Weicher.

Ms. FEDEROFF. With your permission, Mr. Chairman.

Senator REED. Ms. Federoff, please.

Ms. FEDEROFF. Thank you. Our single-family staff would like to have another issue raised, which is that they see the properties as a resource that can be used toward affordable housing in this country, and is very concerned that the contractors at this time are, in fact, not using them as a pool of affordable housing that employees at one time were able to do better.

So that, for example, the number of investor-owners are increasing over time with the use of contractors, as opposed to homeownership. And that is one of many issues that we have with this set of contracts.

Senator REED. Thank you very much.

Let me move to another topic because Senator Allard is here for his second round, also.

Mr. Secretary, I understand that the Department went through a reorganization last year, including moving the independent Real Estate Assessment Center, the REAC, to public housing, and the Enforcement Center to the Office of General Counsel.

I have testimony from the GAO on REAC and the Enforcement Center prior to this reorganization, is as follows: The creation of the REAC and the Enforcement Center were positive developments that yielded real results.

The GAO went on to say that the new REAC enabled HUD to complete its first physical and financial assessment of its inventory, while the creation of the Enforcement Center resulted in the restoration of 41,344 housing units to decent, safe, and sanitary conditions compared to 968 units in fiscal year 1999.

The question is, these Centers seemed to be performing very well, what was the need to put them into a different posture underneath the public housing and the General Counsel's Office?

Mr. JACKSON. Well, Mr. Chairman, first of all, REAC. REAC does half of the work for housing, half for PIH.

We felt that since it was doing the work, and the initial process was probably the correct process, but I think it had to be outside of those areas because it had not been working internally.

We felt that, at least from my perspective, it should, in essence, address the issues of both of those areas. And I felt the best way to do that was to put it in one, house it in one of those areas. We chose Public and Indian Housing.

But in the process, the Assistant Secretary for Public and Indian Housing, and the Assistant Secretary for Housing worked together and they formulated, I think, a very outstanding plan to make sure that REAC is working better now than it has worked in the past.

The second part, as you asked, is about the Enforcement Center. The Enforcement Center was in the General Counsel's Office in the first place. It was taken out. It was taken out, from my understanding, and please let me say this gingerly, because the previous Administration was not getting the response that they wanted. I believe you do not remove organizations because you do not get the response. You make them better or put the right people in place.

Right now, there has not been one step lost in the Enforcement Center in carrying it out back under the General Counsel. It is still doing the same exact response, but yet, it is reporting.

I believed when I came in, and I said this, that we had a number of people reporting directly to the Secretary through the Deputy Secretary. I believe that we should not have had—I forget. How many people were reporting to me?

[Pause.]

More than 30 people were reporting to me. And if I might have the opportunity to use this example.

When I ran AEP, which was a 3,000 employee operation, a \$13 billion corporation, I had two people reporting to me. They were Executive Vice Presidents. One was Executive Vice President for Administration. The other was Executive Vice President for Operations. They had the responsibility.

I think that, actually, from my perspective, for a more streamlined approach, that only the Assistant Secretaries, except those that are authorized by Congress, should report directly to the Deputy Secretary and the Secretary. And so, we tried to find the best housing mechanism to make sure that we lost none of the importance of these agencies to respond to, and that is the approach that we took, strictly from a business approach.

Senator REED. Thank you, Mr. Secretary.

Mr. Czerwinski and Ms. Federoff might have a comment. Then I will ask Senator Allard for his questions.

Mr. CZERWINSKI. Yes, Mr. Chairman. If I could use REAC as an example. I believe the key is to look at what you want to accomplish with a function such as REAC. You are talking about the number and quality of inspections. You are talking about the condition of the property—maintaining the property in good shape.

You also want to consider the analysis of what REAC could do to help landlords maintain their properties in good shape. And finally, the landlords who have defects in their properties need to be monitored to make sure that the corrective actions are taken. Those are the measures of whether REAC is working or not.

We have studied REAC extensively and reported areas where they could do better. But overall, REAC was a significant improvement over HUD's capability in the past, when it really wasn't able to do much to determine the condition of these properties.

The question becomes, with REAC responding to the Deputy Secretary's secretary or to PIH, whether you maintain that capability or not. Frankly, in our view, it is up to the Secretary how he wants to organize his Agency. But he better maintain the results in terms of the issues that we have raised. And that is what we would ask when requiring HUD to report its results along those lines.

The final point is that, in any organizational structure, you have to look at what tensions and stresses there are for independence.

If REAC is going to be delivering bad news to somebody who is an owner of the property or the owner of a program, you have to decide what that does to the program.

If they can deliver bad news and that Assistant Secretary can handle that bad news and correct the problems, REAC reports it is fine. But if the capability is diminished, it is not fine.

Mr. JACKSON. I agree with Stan.

Senator REED. Thank you, Mr. Secretary.

Mr. JACKSON. I think that we have taken all of that into consideration of the process.

What he has just stated to you, we took into consideration. We feel deeply that it can still do that.

Let me say this to you, Mr. Chairman, and Senator Allard. I am flexible. I believe that the tenor of a good administrator or a good manager is to be flexible, to give an opportunity for programs to work. If they do not, then understand that, a year from the day, if it is not, or 2 years from the day, to admit that it hasn't. And that is one of the reasons I think it is important to have the oversight of not only your Committee and the Senate and the Congress, but also GAO, because I am of the hue at this point, I would much rather find a way to work with GAO and work with the union than to find a way to disagree with them.

Because our Agency that the President has appointed the Secretary and I to run is in serious trouble, and I believe that almost everything that has been said today by both Stan and Carolyn, it is absolutely imperative that we all work together to cure these problems.

I think we have worked so far to this point very well. I am not sure who is going to replace Stan, we have had our disagreements, but we have disagreed on issues. We have not disagreed and not spoken to each other. And I think, to me, that is the most imperative thing that we have today.

I want to say this to both of the persons sitting here, and to you. I want to see HUD work. I believe we have to run HUD as a business. Some people think I am absolutely crazy, but the taxpayers deserve to have a well-run Government. And in appointing me, I think that is my task, to run it like we run a business, and to be accountable to you, but also be accountable to the taxpayers.

I think that without the help of GAO, without the help of OMB, without your help, that is not going to occur because I think people have a tendency if they are not looked at, to slide; and I would prefer not to slide.

Senator REED. Thank you, Mr. Secretary.

Ms. Federoff, do you have a comment on this line?

Ms. FEDEROFF. I am glad to hear that a cooperation plan has been put together for REAC staff working on the Office of Housing Programs while working for the Assistant Secretary of Public and Indian Housing. I know that employees have been looking forward to that plan and we are glad that that is, in fact, coming to pass.

Senator REED. Thank you very much.

Senator Allard.

Senator ALLARD. Mr. Chairman, you preempted me on that last question, which is all right.

I wasn't sure that you directly answered the question that I am about to ask you, Stan. And that is, what are your views concerning this realignment decision? It sounded to me like it was favorable, but I am not sure we got a direct response on that?

Mr. CZERWINSKI. Senator Allard, our view is that it really is the Secretary's prerogative as to how he wants his Agency to be structured. But there are functions that have to be accomplished. We would urge the Secretary to take a look at those realignments in the past which have worked and those which haven't and to take that into account.

You asked about the Chief Procurement Office. That, as we know, used to be independent. It now responds through the Assistant Secretary for Administration.

If contract oversight works, then that structure works. If there are problems with contract oversight, we need to think about the structure.

One thing that we also need to think about, as I mentioned, is the stresses and tensions that exist in an organization.

The Office of Administration accounts for about a third of HUD's contracts. So that is an issue that the Chief Procurement Office has to think about because they are essentially overseeing contracts within their own office. If they can do that effectively, it is fine. But it does complicate it.

Senator ALLARD. Did he answer my question, Mr. Chairman?

[Laughter.]

Senator REED. That is why he is being promoted. He answered it very well.

[Laughter.]

Senator ALLARD. You are very adept there, Mr. Czerwinski.

[Laughter.]

I have another question. I have also requested that GAO review HUD's acquisition management practices and how the Agency holds contractors responsible for results. And that work is nearing completion, it is my understanding. What can you tell us today about the results of that work and what HUD needs to do to do better management on its acquisitions?

Mr. CZERWINSKI. That is a really important question because of the increased emphasis that HUD has placed on acquisitions.

As I mentioned in my statement, there are three areas that HUD needs to focus on.

First is the monitoring. And monitoring means getting out there and seeing what is happening with the contractor. Otherwise, you can be taken advantage of.

That ties into the second point, which is you have to have people who know how to oversee and monitor contracts. And with HUD's reliance on contracting growing, we found that some of the people who are overseeing contracts do not have the right skills and background or training to do that. So even if they could get out there, they sometimes did not know what to look for or ask.

The final area is information systems. HUD staff had to get out there because information systems weren't giving them the information they needed in a timely manner to assess the contracts.

Senator Allard, this ties into the points that we made in the hearing. We have talked about human capital. We have talked

about acquisitions. We have talked about information systems. Really, those are not separate issues. They are all interwoven. And they manifest themselves in different ways. But HUD needs a whole plan to make the improvements. That is the basic message we have on improving acquisitions.

Did I answer your question that time?

[Laughter.]

Senator ALLARD. You did a pretty good job, Stan.

[Laughter.]

Mr. JACKSON, I wonder, would you please describe how HUD fits into the President's Management Agenda, and how this will help HUD transform into an effective and efficient Agency?

Mr. JACKSON. There are five critical elements to the President's Management Agenda. And the first is human capital, information technology.

When we started the process, I will tell you that—well, let me back up a second. The process is one of green, yellow, and red. It is just like the stop light.

Senator ALLARD. Yes.

Mr. JACKSON. So, you know when it is red, it means you are not to move. And, in essence, we had inertia on our part when we started this process some years ago.

We have moved in a number of the categories to green. Some of the categories we are still at yellow. But we feel that without a management structure as to denote exactly where we need to go to improve the agencies, we are going to be in serious trouble.

The President's Management Agenda gives us that process that we can address the needs that are affecting HUD at this point in time. Plus, I think that with the information that we have been able to gain from GAO about the high-risk, and they are working with us, we have been able to address these needs.

Now there are five, and I cannot tell you right away—I think she's probably giving me all five here.

Senator ALLARD. Staff is helpful at times, isn't it?

Mr. JACKSON. That is right. Human capital, e-Government, competitive sourcing, budget and performance integration, and improved financial performance.

The only one that we have vehemently disagreed with, and I think we have been given some dispensation, is competitive sourcing. We believe that we have competitively sourced too much out already in this Agency. And therefore, it goes back to what Stan has said, we are not able to manage and monitor our contracts in a very efficient manner.

Second of all—

Senator ALLARD. Is it too much competitive resourcing or just not enough management over which you have already competitively laid out there?

Mr. JACKSON. I think, Senator, that if we are able, as Carolyn has said, to do the analysis that we are presently doing, that will tell us whether we can do the job better in-house than competitively sourcing out, whether it is single-family or multifamily, we must look at that. That is something that, until this year, this Agency has not been able to look at.

OMB has given us permission to look at it. And if we find that we can do it better by having workers under the Federal umbrella, we should do it.

I cannot tell you right now empirically that is the case. I will say this to you, that I believe, and my testimony, when I was being asked during the process of my hearing, I feel today the same way.

I think that it was a serious mistake to cut HUD of some 8,000 workers without doing an empirical and methodical study as to how it should be done. And I think it has hurt the Agency. I do not believe it is the responsibility of the staff that is here now. I think that they have done everything within their power to do the very best job that they can do.

But we go back to an issue that was raised early in this hearing by Stan. Even if they have done the best job, do we have enough resources to manage internally what we have? And also, to manage externally what we have, which is competitive sourcing?

I believe not.

Senator ALLARD. I think when you look at competitive, when you compare the public sector versus the private sector, there is one really distinct difference. The public sector doesn't pay any property taxes. They do not pay local taxes. They are exempt from that.

But if you bid it out, then they pay property taxes. Property taxes go toward supporting education—if it is Colorado, a big chunk of that is education. And I do not know how you factor that in because in the way of energy saving, or by way of trying to save that, you can just—you have your employees there, Federal employees there who are using schools, using the facilities, but they are not paying the property taxes to support it.

That is why we have things like PILT. But in most cases, like the programs that you have, the PILT is not big enough to compensate and never really gets figured into the formula. In certain areas they figure that in. I do not know how you figure that in.

Mr. JACKSON. I am not sure how you do that, either. But I might be able to answer you this way. When I was running the utility company, I paid a lot of taxes.

Senator ALLARD. Sure you did.

Mr. JACKSON. I mean an awful lot of taxes. I personally paid an awful lot of taxes. I did not like paying the taxes. So, I feel that if that is the basic reason, because they pay taxes, I think that is important. I also think that efficiency and how we run our Government and how we can give our constituents the best service is very important. I believe that you and I will probably agree, if we can do it better, more efficient, at a cheaper price, we should do it. Especially in today's era, we should do it. But if it is clear that it is a wash, whether we do it publicly or privately, then I would say, yes, and it can be done just as efficiently privately, to do it privately, because I do think that there are benefits.

Senator ALLARD. Thank you.

Thank you, Mr. Chairman.

Senator REED. I have one other area I would like to explore and offer Senator Allard a chance—

Senator ALLARD. I am finished.

Senator REED. If you are finished, then I will close the hearing.

OMHAR was created in 1997 to bring a market approach to the Mark-to-Market Program, the entrepreneurial skills. People who are business-oriented rather than bureaucratically oriented, perhaps. At the request of HUD, OMHAR was put under the Office of Housing. GAO has reported that OMHAR's private-sector partners are seeing some significant problems due to the transition to the Office of Housing. Specifically, these partners cite delays in issuing guidance in the new legislative provisions, delays in completing certain restructurings, attrition in OMHAR staff, and quoting from the GAO briefing, "indecisiveness." Every decision is contingent on approval from the Office of Housing.

Mr. Secretary, could you comment on that?

Mr. JACKSON. Again, if it is okay, I would like to defer to Mr. Weicher to comment on that.

Mr. WEICHER. Senator Reed, we have met with Stan and his staff on a bi-monthly basis, as you all have requested them and us to do. We are one under the staff ceiling for OMHAR at this point. The ceiling is 85. We have 84 on board. We brought on a director this spring, Charles Williams, known as Hank Williams for reasons that escape me. He doesn't carry a guitar or anything like that.

[Laughter.]

But it is his name. We left him with the ability to make some hiring decisions once he came on board, rather than filling every vacancy immediately. So for a little while, we were down to 80, 79.

The deals have been going at the rate of 20 to 30 a month through the period since OMHAR was brought within the Office of Housing. We expect an increase because of some of the legislative authority that you gave us at the end of the year, we expect a one-time increase to about 30 to 40 per month for the next few months.

We are continuing to do deals at a steady basis and Hank, Mr. Williams, is very much on top of the job and getting comfortable.

Senator REED. Well, it is my understanding that OMHAR has authorized 91 full-time workers and they have been waiting for permission to hire up to that level, even though there is 84 on the job now.

Mr. WEICHER. The REAP process concluded that the OMHAR's appropriate staffing level was 85, and as we have done elsewhere in the Department, we operated within those staffing constraints.

Senator REED. I am told, Mr. Secretary, 91. Let's sort this confusion out.

Mr. Czerwinski, might you comment on this since it is a GAO briefing finding?

Mr. CZERWINSKI. Yes, Mr. Chairman. My comments are consistent with what I have said all along. The key is having oversight of some areas that are important. And the success of OMHAR is obviously very important.

The first step is establishing a baseline as to what everybody agrees should be the number of deals completed by OMHAR each month. The second should be the number of people that OMHAR needs to make the deals happen. Once we establish what the right number of deals is, then we can say whether the transition is working or not.

Historically, OMHAR had been running, and Secretary Weicher can elaborate because he probably works more closely than I do

with this, probably at a plateau of around 30 to 40 deals per month.

At the transition, you would probably expect to see that going down, and it has. The question becomes, will it come back up. Will it stay back up?

In terms of people on board, there is an allocation that HUD has. There is also an estimate that REAP has. Those are verifiable numbers. We just need an agreement as to what HUD will staff that office at, and then it is up to them to do it.

Senator REED. Thank you. Actually, I have heard comments about OMHAR and a lack of decisiveness through New England housing people. So this is an issue, I think, not just—it might be coincidental, but I have been hearing the same thing.

Let me conclude by thanking everyone for their very candid and thoughtful testimony. I think this has been a very useful hearing.

Let me also say, Senator Allard asked somewhat facetiously if you answered his question. Well, here is what I think you said vis-à-vis all these reorganizations. Is that taking these quasi-independent agencies and putting them back underneath some part of HUD raises the issue that, in fact, they have to bring bad news to people who are responsible for the bad news and have to take corrective action. That is also difficult.

The question is whether that would inhibit REAC and the Enforcement Center from pulling their punches. Now, I think what the Secretary said is you recognize that, explicitly recognize that. You are watching for that and you are going to do everything you can to prevent that from happening.

Mr. JACKSON. Yes.

Senator REED. But if it begins to happen, then I think we have to question again the reorganization.

Mr. JACKSON. I would agree with you.

Senator REED. Is that the answer?

Mr. JACKSON. I would agree with you, Senator.

Senator REED. Thank you.

Mr. JACKSON. I would agree with you. During the realignment, redeployment, reorganization, I had to make some decisions where I had put one specific area under an area. Clearly, I had made a mistake. It was my understanding that we had the authority to do it. But it was brought to my attention that we did not. I had no problems removing it or putting it back.

And in one area, we had the authority, but I felt just what you just said, that it might be inhibited from doing the kind of job that it should do, and I decided that it wasn't the best fit.

Mr. CZERWINSKI. Mr. Chairman, I think you stated my answer very well. What I would say is that the key to making that work is oversight. And holding hearings just like this, where we can establish what the criteria are, what the performance levels should be, and then seeing whether it has happened.

As I mentioned in the short statement, that is what we are here to help you with. I would encourage you to ask our staff to go in and keep looking and reporting back to you, and then we will have this kind of dialogue.

Senator REED. Thank you very much.

Again, let me thank all of you. It is apparent, I think, from today's hearing that we are at a critical crossroads. HUD has made progress in management. But there are some significant challenges ahead. The potential retirement of half the workforce, trying to get computer systems that talk to each other, getting a budget that supports your plans to go forward, and fundamentally, getting a plan that clearly outlines the human capital needs, the computer needs, and the oversight needs of the contractors.

Time is running out because the departure of retirees could be taking place in the next few months to the next 2 years, and the need to get on top of these programs are essential.

So, I thank you for your candid and thoughtful discussion, Mr. Secretary, Mr. Czerwinski, and Ms. Federoff.

If Members of the Subcommittee have additional questions of the witnesses, I will ask them to submit them no later than July 29. And the witnesses, I would hope, could respond within 10 days to any written questions.

Thank you again.

The hearing is adjourned.

[Whereupon, at 4:20 p.m., the hearing was adjourned.]

[Prepared statements and response to written questions follow:]

PREPARED STATEMENT OF SENATOR PAUL S. SARBANES

Mr. Chairman, I very much appreciate your calling this hearing. I have often said that oversight is a crucial function of the Congress, and I think it is very important to do a review of the agencies to make sure that they are meeting their responsibilities in an efficient and effective way.

This is particularly true in the case of HUD, which has had ongoing management problems for many years. Having said that, I also want to note that, according to the GAO, HUD was on a positive trajectory with regards to its management and oversight functions. One of the things we emphasized to both Secretary Martinez and Deputy Secretary Jackson is the need to keep that positive momentum going. I think it is appropriate, now that the new leadership has been in place at HUD for over a year, to assess exactly what direction things are moving.

Let me start by just making a few observations. HUD provides a broad array of services to millions of Americans, from rental assistance, to economic development opportunities, to capacity building for nonprofits, to mortgage insurance for homeowners. We ask HUD to do a lot, but we provide it with far too few resources. We need to work together to make sure that HUD is making the best use of the resources it does get; once we accomplish that, it will become easier to advocate for more funds going forward.

For that reason, it is very important to keep an open dialogue among the Department, its employees, and the Committee. Unfortunately, that has not always been the case. For example, I was concerned that the Committee found out about HUD's reorganization plan late last year from outside parties. Even after finding out about it, the Department was slow in briefing our staff on the new plans.

I am also concerned about the resistance from the Department with regards to meeting requests for information from the General Accounting Office. The Committee's oversight role is a serious responsibility; the GAO is our partner in this job. HUD must be cooperative in providing information as needed. I hope that the GAO witness, Mr. Czerwinski, will address this very important issue.

Mr. Chairman, there are two other issues I want to raise briefly. We have to make sure that all the old Intermediary and Outreach Technical Assistance Grants (ITAG and OTAG) owed to small nonprofits working with residents around the country are paid. We were assured by the Secretary in February that these would be paid once it was determined that no Anti-Deficiency Act violation occurred. In fact, there was no violation, but, as of late last week, not all payments had been made.

In addition, the Department should get the program up and running again. The OTAG and ITAG programs are important tools in helping assisted housing residents get organized to participate in the restructuring or purchase of their projects. Without this technical assistance money, residents will not be able to play the role forseen for them by the Congress.

Finally, Mr. Chairman, I want to emphasize the importance of getting the Office of Multifamily Housing Assistance Restructuring (OMHAR) fully staffed up. This Committee moved in an expeditious fashion to pass legislation to ensure that OMHAR and the Mark-to-Market Program would be reauthorized, in no small part because the GAO testified about the importance of maintaining the good staff that has been put together. We also agreed to put the Office under the supervision of the Assistant Secretary of Housing. However, we maintained its distinctive and somewhat independent character and authority in order to make sure that it could continue to do its work. I am concerned that the OMHAR is being stifled in its efforts to use its flexibility to retain and hire staff, and to get its work done in a timely manner.

Once again, Mr. Chairman, thank you for holding this hearing. I look forward to working with you and the leadership at HUD in ensuring that the Department continues to improve its management, and the delivery of its services.

PREPARED STATEMENT OF ALPHONSO JACKSON

DEPUTY SECRETARY & CHIEF OPERATING OFFICER
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

JULY 24, 2002

Chairman Reed, Ranking Minority Member Allard, and Subcommittee Members, I thank you for the opportunity to appear before you today to discuss HUD's staffing, acquisition management, and information systems challenges. I am happy to

provide you with an update of the substantial progress our Administration is making to address these challenges.

Under the leadership of Secretary Martinez, the first year of our new Administration was largely devoted to getting our management team in place, assessing HUD's management environment, and formulating viable strategies and plans to address the major management challenges and program risks still facing the Department. In formulating our strategies and plans, we strongly considered the input on HUD's management challenges and program risks from the U.S. General Accounting Office (GAO) and the HUD Office of Inspector General.

I believe our management team and the GAO share a common view that improvements to HUD's management of its human capital, acquisitions, and information systems are essential to addressing HUD's remaining high-risk program areas—the Multifamily Rental Housing Assistance and Single-Family Housing Mortgage Insurance Program areas—and to maintaining adequate controls over other program activities previously considered high-risk.

The inclusion of our management challenges and program risks in the President's Management Agenda is indicative of the importance placed on these issues. As part of GAO's Biennial Performance and Accountability and High-Risk Series Review for 2003, HUD already has provided the GAO with several reports that highlight our progress in addressing our management challenges, including our implementation of the President's Management Agenda. We welcome the GAO's independent assessment, and I am confident that they will see that we are moving in the right direction to address our management challenges, reduce our program risk, and improve our program performance.

Human Capital Management

Human capital is HUD's most important asset. We have taken significant steps to enhance and better utilize our existing staff capacity, and to obtain, develop, and maintain the staff capacity necessary to adequately support HUD's future program delivery.

Effective human capital management is the purview of all HUD managers and program areas. We view our human capital management challenges as consisting of: (1) The need for strategic Human Capital Planning to link and align our staffing with our mission, goals, and organizational objectives. (2) Staff shortages and skill gaps as a result of downsizing initiatives during the 1990's. (3) A maturing workforce with about half of the workforce eligible for retirement over the next 5 years. (4) The need for increased use of technology to support organizational improvements and accomplishment of goals and objectives.

To meet these challenges, we have taken or we have planned a number of significant actions.

Management and Staffing Realignments

The first issue I would like to address is the realignment of management and staffing that the Department already has undertaken.

HUD's June 1997 management reform plans were intended to realign the Department along functional lines, with the separation of outreach from program administration, and the placement of greater reliance on automated tools, processing centers and contracted services. These planned reforms were intended to enable the Department to better utilize a reduced staffing capacity to more efficiently and effectively deliver and oversee HUD's major program activities.

We found that the planned organizational and operational changes were implemented with varying degrees of success. Some of the intended organizational and process changes were never formally institutionalized with the need for delegations of authority and the issuance of current written policies and procedures to support staff training and ongoing operations. In addition, some of the 1997 organizational and staffing realignments have proven to be an ineffective use of HUD's human capital.

As a result, decisions were made and actions taken to pursue separate realignments of headquarters and field activities to better use our existing resources. At headquarters, we reduced the reporting relationships with the Secretary by 40 percent, including the following actions:

- The Departmental Enforcement Center (DEC) was placed under the direction of the General Counsel to consolidate our legal resources in support of a strong program enforcement effort. HUD's program enforcement efforts were previously under the Office of General Counsel prior to the creation of a separate DEC.
- The Real Estate Assessment Center (REAC) was placed under the direction of the Assistant Secretary for Public and Indian Housing (PIH), in order to improve

REAC's working relationships with program staff and program partners and strengthen accountability for resource use and results.

- The Office of the Chief Procurement Officer (OCPO) and Office of the Chief Information Officer (OCIO) were placed under the direction of the Assistant Secretary for Administration/Chief Information Officer, to streamline HUD's organizational structure and improve service delivery to HUD's program and administrative components. The former CIO is now HUD's Chief Technology Officer.
- The Office of Field Policy and Management (FPM) was established as an independent office reporting to the Deputy Secretary, with responsibility for oversight of HUD's field management and assistance to program Assistant Secretaries in meeting program goals at the field office level.

Our field office realignment and redeployment efforts included the following:

- Substantial numbers of staff in the outreach function were redeployed to understaffed program delivery and oversight functions, where there is a critical need.
- New regional management positions were created to give HUD's field operations greater operational control over the administrative budget resources they need to pursue their operating and program goals, and to strengthen the local focus on workload management to meet national performance goals.
- All program decisions continue to be exercised by program directors and managers under the direction of their respective program Assistant Secretary.

We have formalized our realigned structure, with publication of delegations of authority in the *Federal Register*, and are providing current operating policies and procedures to support staff training and on-going operations. These adjustments to HUD's operating structure will enable us to more efficiently and effectively utilize our available resources to strengthen our program delivery and oversight.

Human Capital Strategic Management Plan

A Human Capital Strategic Management Plan was developed in February 2002 to provide an overall framework for our human capital activities. An important part of this plan is our Senior Executive Steering Committee, chaired by the Assistant Secretary for Administration, which is currently developing a 5-year plan to focus on: (1) staffing requirements; (2) organizational de-layering; (3) supervisor to employee ratios; and (4) front-line service delivery. This Committee also will make recommendations regarding the need for new or revised policy guidance to support the Department's new human capital strategies.

Staffing Needs and Allocation of Resources

HUD's past management of its human capital was hampered by the lack of a system or process for estimating and justifying its staffing resource needs, and allocating the staffing resources available. In 2001, HUD completed the implementation of a new Resource Estimation and Allocation Process (REAP), with input from all of HUD's managers. The REAP was developed in conjunction with the National Academy of Public Administration.

The baseline outputs of the REAP were used to assist in making decisions on redeploying HUD's existing staff resources to address priority program staffing needs in the field. The deployment of resources in the prior Administration left us understaffed to perform critical program delivery and oversight functions, while too many staff were devoted to outreach efforts. REAP was useful in helping to identify the critical staff shortages.

We are now in the process of completing the first quarterly validation of the REAP staffing estimates through an assessment of actual staff time reporting via the implementation of the companion process to the REAP, the Total Estimation and Allocation Mechanism (TEAM). REAP and TEAM information will help HUD's management determine our staffing level request to Congress as part of our fiscal year 2004 budget.

Our fiscal year 2003 budget submission did not request the full staffing levels supported by the REAP for several reasons. First, we wanted to allow time for HUD managers to complete the initial TEAM validation process and to further analyze REAP and TEAM data. TEAM was not in place when the fiscal year 2003 budget was submitted to the Congress. It has since been completed and is operational. Second, although the REAP methodology supported a significant increase in staffing requirements (with a total level of 10,600 FTE's), it was not realistic to assume that the Department could implement that amount of an increase at the same time that the redeployment of existing staff was also taking place. Now that our redeployment of existing staff is completed, we have turned our attention to expediting our hiring and orientation processes to assure that we can fully utilize the staffing ceilings already approved by the Congress. This is the highest priority for our new Assistant

Secretary for Administration and Director of Personnel, who were just recently added to our management team.

Succession Planning

HUD has developed a Departmental Succession Planning Strategy, which includes procedures for workforce analyses. As a part of the Department's Succession Planning Strategy, we examined the top nineteen occupations in the Department in relation to continued need and potential retirements over a 5-year period. An assessment was further conducted in relation to HUD's four core program disciplines—in the Office of Housing, Office of Public and Indian Housing, Office of Community Planning and Development, and Office of Fair Housing and Equal Opportunity—to assess the impact of potential losses over the 5-year period, and resulting skills imbalances. However, critical staffing needs exist throughout HUD's programs and the focus will be on the entire Department. The Presidential Management Intern Program (PMI), the new HUD Intern Program, the Legal Honors Program, and the SES Candidate Development Program (SES CDP) are being utilized to establish a pipeline of well-qualified employees to meet staffing needs and anticipated skills shortages.

Training and Development

Training and development of HUD employees is a Departmental priority. The HUD Training Academy has been enhanced and energized to move forward with a new vision for the Department's training program, which is focused on investing in the power and potential of HUD employees. Agency specific technical training and career advancement training are readily available to all employees. Several other initiatives are in place to build a new HUD culture, focused on the value of training and continuous professional development. For example:

- The new "HUD Leadership and Management Curricula" was launched in April 2002, and features 38 courses, which provide a comprehensive training program for supervisors, managers, and executive leaders.
- The "Operation Brain Trust Initiative" was launched in December 2001 to utilize HUD's subject matter experts as "Professors" to develop the supervisors, managers, and professionals of tomorrow through the experience of HUD's leaders today.
- The "HUD Virtual University" is a new "e-learning" initiative that provides on demand training, 24 hours a day—7 days a week—365 days a year, with access to online technical coaches and experts for a curriculum that includes 1,600 web-based courses available at the desktop of every HUD employee.

HUD's Program Assistant Secretaries have also been focused on the provision of updated program handbooks, guidance and training for HUD's monitoring staff and program intermediaries. These are further examples of our commitment to developing and to maintaining a competent HUD workforce and program delivery structure.

Technology Support

The Department is acquiring an integrated human resources and training system entitled the HUD Integrated Human Resources and Training System (HIHRTS). HIHRTS replaces 17 existing systems and will support workforce planning, succession planning, forecasting, and identification of staff competencies.

Performance Management

HUD had already been recognized for its progress in linking and aligning its staffing with its mission, goals, and organizational objectives, and we have continued and enhanced that process. Those linkages are made in HUD's Budget Submissions and Annual Performance Plans. We further use a management planning process that links field office and headquarters operating goals and other performance goals with the Department's strategic goals and objectives under the Government Performance and Results Act. It is important that HUD's managers and staff know their contributions to HUD's mission objectives, and are held accountable for that performance. We assess progress against our Management Plan goals quarterly, and annual accomplishments are factored into staff performance evaluations and awards.

Acquisitions Management

HUD is heavily reliant on contracted services in support of its current operations. HUD's contracted services go well beyond facilities maintenance and other routine services to many core program functions. Given the extent and the significance of HUD's contracted services, HUD's acquisition management challenges consist of: (1)

Assuring that our contract funding goes toward meeting our priority needs in a cost-effective manner. (2) Committing sufficient business area expertise to develop adequate statements of work to govern contractor performance. (3) Maintaining a sufficient procurement capacity to timely process quality procurement actions. (4) Providing adequate oversight of contractor compliance and performance.

Our actions to address these acquisition management challenges include the following:

- *Contract Management Review Board*—The Department has reestablished a senior-level Contract Management Review Board (CMRB) to review and approve annual procurement plans for each HUD component, and to approve all contract actions over \$500,000. The CMRB helps to assure that HUD's contract resources are used to address the Department's priority service needs. The CMRB also ensures the acquisition strategy is based on competition, is performance-based to the greatest extent practicable, and treats small businesses fairly and gives them a chance to compete.
- *Integrated Program Teams*—The Department is increasing the use of Integrated Program Teams (IPT's) to improve the quality and timeliness of procurement actions. IPT's are groups of management, technical, and contracting experts assembled to accomplish a mission-critical procurement objective. HUD uses IPT's to plan the acquisition strategy, establish the contracting milestones, develop the statement of work, manage the contracting process through contract award, and monitor the contractor's performance.
- *Performance-Based Contracts*—One of the President's management objectives is to increase the use of performance-based service contracts to 20 percent of service contract awards in fiscal year 2002. HUD is fostering a partnership between its contracting and program personnel to increase the use of performance-based service contracts, and is providing classroom and "just-in-time" training on the development of performance-based statements of work. In addition, the Department has established an IPT—consisting of information technology (IT), program, and contracting staff—to convert existing IT systems development and maintenance contracts to performance-based. These efforts are beginning to show results: As of June 30, 2002, 16 percent of new service contracts were performance-based.
- *Small Business Utilization*—The Secretary and I recognize that small businesses are vitally important to job growth and the economic strength of the country. The Secretary has challenged HUD to award 50 percent of its contract dollars to small businesses. To achieve this demanding goal, the Department sponsors small business fairs and other outreach programs to publicize HUD's contracting and sub-contracting opportunities. Through these and other efforts, the Department is well on its way to achieving this goal. As of June 30, 41 percent of fiscal year 2002 contract dollars have been awarded to small businesses, and I am particularly pleased that women-owned small businesses have accounted for 21 percent of the Department's total fiscal year 2002 awards—far surpassing the 5 percent goal established by Congress.
- *Other Acquisition Improvement Efforts*—HUD has hired a new Chief Procurement Officer to lead our acquisition improvement efforts. We have also approved a 50 percent increase in staff resources devoted to contract award and administration and increased training and development of the acquisition workforce as required by the Clinger-Cohen Act.

These changes are collectively expected to improve both customer service and contractor performance and to reduce the Department's overall cost of operation.

Information Systems Management

Adequate automated information systems are essential to the effective administration of HUD's large, diverse, and complex program universe. However, we recognize that HUD has antiquated systems that are poorly integrated, inefficient, and inadequate for meeting many essential program management information needs. Most of HUD's systems support is provided through contracted services.

HUD's major information systems challenges are to: (1) Properly prioritize Information Technology (IT) capital investments to meet HUD's most critical business needs. (2) Adequately plan systems development to assure effective systems integration and operation. (3) Provide sufficient business area support for the systems development efforts. (4) Improve contractor performance and HUD's systems project management. (5) Maintain a secure systems environment.

Our efforts to address these challenges include the following:

IT Capital Investment Planning

We have continued to refine and institutionalize HUD's IT Investment Management (ITIM) Process. Efforts were taken to seamlessly integrate HUD's ITIM, or IT capital planning process, with HUD's Enterprise Architecture (EA) and e-Government directives from the Office of Management and Budget, to better assure efficient resource use and effective business results. The IT capital planning process was enhanced to incorporate an EA assessment of proposed projects during the selection of IT projects for upcoming fiscal years. The scoring of initiatives is linked to HUD's e-Government Strategic Plan, the President's Management Agenda, material weakness and high-risk issues, and other Departmental priorities.

HUD is also pursuing a performance-based, outcome-oriented infrastructure contract called HUD IT Services (HITS) that is expected to provide improved services and innovative solutions. Award is currently scheduled for November 2002. The selected HITS vendor will partner with HUD to specify, design, acquire, maintain, and support the IT infrastructure, ensuring that enterprise architecture considerations, standards, and policies are followed.

Enterprise Architecture

HUD's Enterprise Architecture (EA) initiative is designed to provide Department-wide documentation of HUD's current business and technology systems architecture baseline, as a basis for both better managing HUD's current information systems and better meeting future information systems needs. HUD has recently completed a refreshment of the baseline EA in the Enterprise Architecture Management System. The EA team is completing work on the significant Single-Family Housing segment of the target architecture for future systems development in this high-risk program area.

Project Management

We have taken actions to improve IT systems project management and correct past problems of projects not being completed on time, cost overruns, and unlimited project scope. Through the IT capital planning process, HUD conducts quarterly control reviews of every IT project, requiring projects with significant cost or schedule variances to develop recovery plans to get back on track. HUD also provided IT Investment and Project Management training to over 100 IT project managers and plans to offer this training as an online course later this year. HUD instituted project management reviews at the highest levels to focus executive attention on projects needing direction. As previously discussed, IPT's or Integrated Procurement Teams were created to manage and implement the transition of IT support contracts to performance-based contracts.

Systems Security

We established HUD's Enterprise Security Program to provide protection for HUD's critical infrastructure, both physical and information systems. This entails developing and implementing effective security procedures, security awareness and training, disaster recovery/contingency planning, and monitoring compliance and effectiveness of security procedures, policies and standards. Significant accomplishments have been made. The HUD Office of Inspector General's audit of HUD's fiscal year 2001 Consolidated Financial Statements recognized both substantial control improvements in HUD's mainframe-computing environment, and considerable strides to improve software configuration management for both mainframe and LAN-based client/server applications. OCIO is responding to the Government Information Security Reform Act through security self assessments, developing and reporting on an overall HUD security plan, and providing a strategic Five-Year Plan for Security.

As you can see, our efforts to meet HUD's human capital, acquisitions, and systems challenges have been extensive. Our efforts to better manage our staffing, acquisitions, and information systems have a direct relationship to the excellent progress we are making in addressing HUD's two remaining high-risk program areas—our Multifamily Rental Housing Assistance and Single-Family Housing Mortgage Insurance Program areas. We welcome the pending independent assessment of our progress through the GAO's biennial Government-wide review of major management challenges and high-risk programs.

That concludes my testimony. I look forward to working with you to address the continuing management challenges facing HUD, and I thank you for your on-going support of the Department.

PREPARED STATEMENT OF STANLEY J. CZERWINSKI

DIRECTOR, PHYSICAL INFRASTRUCTURE

U.S. GENERAL ACCOUNTING OFFICE

JULY 24, 2002

Mr. Chairman and Members of the Subcommittee: We are pleased to be here today to discuss the high-risk program areas and management challenges facing the Department of Housing and Urban Development (HUD). HUD's programs affect the lives of millions of Americans. HUD makes housing more affordable for about 4.8 million low-income households by insuring loans for owners of multifamily rental housing and providing rental assistance. It helps to revitalize America's communities by assisting over 4,000 localities through its community development programs. It encourages homeownership by providing mortgage insurance for about 7 million homeowners who otherwise might not have been able to qualify for their loans—managing about \$500 billion in insured mortgages and \$604 billion in guarantees of mortgage-backed securities. To accomplish its missions, HUD relies on the performance and the integrity of thousands of mortgage lenders, contractors, property owners, public housing agencies, communities, and others to administer its programs. Effective oversight and strong management are critical to ensure that HUD's reliance on these third parties results in the effective and efficient stewardship of Federal funds and the accomplishment of the Department's mission and program goals.

For many years, HUD has been the subject of criticism for management and oversight weaknesses that have made its programs vulnerable to fraud, waste, abuse, and mismanagement. In 1997, HUD undertook the 2020 Management Reform Plan, a complex and wide-ranging effort designed to, among other things, refocus HUD's mission, strengthen accountability, and eliminate fraud, waste, abuse, and mismanagement from its programs. In January 2001, we recognized the credible progress that HUD had made in improving its management and operations, and we reduced the number of HUD program areas deemed to be high-risk to two of its major program areas—Single-Family Mortgage Insurance and Multifamily Rental Housing Assistance.¹ These program areas comprise about two-thirds of HUD's budget. The current Administration has placed improving HUD's management among its highest priorities and has set a goal to remove the high-risk designation from all HUD programs by 2005. This is therefore an appropriate time to review HUD's progress toward addressing these high-risk program areas and the challenges it faces in sustaining the progress that has been made as HUD moves toward its goal to become a high performing Agency that provides quality service to its customers.

My testimony today discusses the major management challenges we see facing HUD, as well as the progress HUD has made over the past few years addressing its challenges, and the steps it is continuing to take to address them. First, my testimony discusses the challenges HUD faces improving accountability and control over its high-risk program areas. Second, it addresses the challenges that HUD faces that cut across all its program areas—especially its efforts to improve accountability and control over its high-risk program areas—in the areas of: (1) managing human capital, (2) managing acquisitions, and (3) improving programmatic and financial management information systems. My testimony today draws on a body of work, including recent reports we have issued on various HUD programs, our work on HUD's Human Capital Management that is being released today at this hearing,² our assessment of HUD's strategic and performance plans, and a series of assignments we have ongoing at the request of this Subcommittee. It also draws on work we have done on management reform initiatives and performance-based organizations across both the Federal and private sectors. In summary:

- HUD's Single-Family Mortgage Insurance and its Multifamily Rental Housing Assistance Program areas are at high-risk of waste, fraud, abuse, and mismanagement. In January 2001, we reported that, while HUD had made credible progress addressing its management deficiencies, significant weaknesses in these two program areas remained—areas comprising about two-thirds of the Department's budget. To correct weaknesses in its Single-Family Mortgage Insurance Programs, we reported that HUD needed to improve, among other things, its oversight of lenders and appraisers. To ensure the integrity of its Multifamily Rental Housing Assistance Programs, HUD needed to take actions, including ensuring that pro-

¹U.S. General Accounting Office, *Major Management Challenges and Program Risks: Department of Housing and Urban Development*, GAO-01-248 (Washington, DC: January 2001).

²U.S. General Accounting Office, *HUD Human Capital Management: Comprehensive Strategic Workforce Planning Needed*, GAO-02-839 (Washington, DC: July 24, 2002).

viders of rental housing maintain housing that is in decent, safe, and sanitary condition. The President's Management Agenda contains initiatives to address these and other weaknesses; and HUD has developed plans, including goals and timetables, for taking action on them. In addition to our ongoing reviews of HUD's programs, we plan to review these plans and monitor HUD's progress in the months ahead. We will report on the results of our review in January 2003, when we will assess HUD's progress as part of our Performance and Accountability and High-Risk Series update.

- Human Capital Management—and the need for a strategic approach to managing HUD's staff—is the most pressing crosscutting management challenge facing HUD. HUD downsized its staff from about 13,500 to 9,000 over the last decade, and its human capital challenges are exacerbated by demographics that suggest that by August 2003, about half of its professional workforce will be eligible to retire. HUD has begun the initial stages of workforce planning; it has completed its resource estimation and allocation process, which estimates the staff needed to handle the current workload in each office, and a detailed analysis of HUD's potential staff losses due to retirement. However, the Department does not have a comprehensive workforce plan. Elements that we have reported are necessary for comprehensive workforce planning—but are missing from HUD's workforce planning—include, among other things, an analysis of what work its staff should be doing; the knowledge, skills, and abilities needed by the staff to do this work; the appropriate staff deployment across the organization, and the strategies for identifying and filling gaps. Without more comprehensive workforce planning, HUD is not as prepared as it could be to recruit and to hire staff needed to pursue its mission.
- Effective acquisition management is of increasing importance because, as HUD downsized its staff, it relied more and more on outside contractors to accomplish its mission. Over a 4-year period HUD's spending on outside contracting increased about 62 percent, and HUD officials have estimated that the total number of contractor staff assisting in delivering HUD services may nearly equal its own. HUD has made progress in the past few years improving its acquisition management practices; but it faces the challenge of ensuring that, where it relies on contractors to perform its mission, it will hold these contractors accountable for results. Successfully meeting that challenge affects the successful delivery of HUD's programs, the effective deployment of its staff, and its ability to ensure the integrity of its Single-Family and Multifamily Rental Housing Assistance Programs. Holding the contractors accountable for results requires processes and practices in place to effectively monitor contractors' performance, an acquisition workforce with the right workload, training, and tools to carry out its mission, and programmatic and financial management information systems that support HUD's efforts to ensure accountability in its acquisitions.
- Responsive programmatic and financial management information systems are critical to HUD's ability to meet its mission, deliver key services, and establish sufficient management control over its programs and operations. Concerns about the weaknesses in HUD's programmatic and financial management information systems are not new—we first reported some of HUD's current problems in 1984—and our recent work shows that these weaknesses continue to adversely impact the Department's ability to monitor and effectively ensure the integrity of its Single-Family Mortgage Insurance and Multifamily Rental Assistance Programs. For example, to oversee lenders in HUD's Single-Family Mortgage Insurance Program, staff at the Department's Homeownership Centers must collect and manually compile information from multiple systems to target high-risk lenders—increasing the likelihood that problems will go unnoticed. In addition, concerns about the ability of HUD's financial management systems to effectively support the timely preparation and audit of the Department's annual financial statements are long-standing; and as of today, HUD is still in the early stages of developing a plan for resolving them. Accordingly, developing a plan to substantially improve programmatic and financial management information systems to meet the Department's needs and comply with Federal financial system requirements is crucial to HUD's efforts to successfully address its high-risk program areas.

HUD's High-Risk Areas: The Single-Family Mortgage Insurance and Multifamily Rental Housing Assistance Programs

HUD's Single-Family Mortgage Insurance and its Multifamily Rental Housing Assistance Program areas, comprising nearly two-thirds of the Department's budget,

are at high-risk of waste, fraud, abuse, and mismanagement.³ In January 2001, we reported that, various factors, including a strong economy, had resulted in the accumulation of capital reserves of about \$16.6 billion on HUD's Federal Housing Administration (FHA)-insured home loans. However, we also reported that the FHA lost about \$1.9 billion during fiscal year 2000 on the sale of foreclosed homes that it had insured. In addition, we found other problems with HUD's management of its single-family program. For example, HUD was experiencing significant problems with the performance of contractors responsible for maintaining and selling the single-family properties HUD acquires through foreclosure. We found most of these contractors had trouble securing and maintaining properties in proper condition—and HUD eventually terminated the contractor responsible for about 40 percent of the properties. If HUD's acquired properties are not properly secured and maintained, they can contribute to a neighborhood's decay, particularly as they age.

Overall, we identified several opportunities wherein HUD could strengthen FHA's Single-Family Mortgage Insurance Program, including strengthening the integrity of the single-family loan origination process, promoting better monitoring of lenders, appraisers, and contractors, and implementing effective human capital policies to ensure that sufficient staff with the right skills are available to carry out the FHA's mission.

For HUD's Multifamily Rental Housing Assistance Programs, we noted that HUD continued to face challenges in ensuring that only eligible families occupy housing units; that those families are paying the correct rents; and that providers of rental housing maintain housing that is in decent, safe, and sanitary condition. More recently, we have reported that HUD's field offices frequently did not follow the Department's procedures for ensuring that owners of HUD-assisted multifamily properties are correcting physical deficiencies identified in inspections by HUD's Real Estate Assessment Center (REAC). Our analysis focused on approximately 500 properties that REAC determined were in substandard condition and that HUD's field offices subsequently classified as repaired. On the basis of our site visits to a sample of these properties, we estimated that for about half of the properties covered by our analysis, at least 25 percent of the deficiencies that REAC classified as "major" or "severe" had not been corrected. This problem occurred because HUD staff were classifying the properties as repaired, without obtaining required repair plans and certifications of repairs from the owners and because some owners and managers reported completing repairs that had not been made.⁴

Overall, our January 2001 report concluded that, to address this high-risk area, HUD must continue its efforts to develop adequate information systems that ensure that: (1) correct rental housing subsidies are paid and (2) complete actions on our recommendations aimed at improving the quality of contractors' physical inspections of the condition of public and multifamily housing.

HUD has been addressing its high-risk challenges and the recommendations of our earlier reports. HUD's 2020 Management Reform Plan has resulted in major changes throughout the Department as it worked to resolve its management challenges. In reviewing the progress of the plan in October 2001, we noted that some of HUD's initiatives were achieved relatively quickly and are producing results.⁵ For example, the consolidation of some of its oversight and processing functions into several new centers—as part of HUD's efforts to consolidate and streamline its operations—had perhaps been the most successful. The new REAC enabled HUD to complete the first physical and financial assessments of its assisted housing inventory, while HUD reported that the creation of its Departmental Enforcement Center resulted in the restoration of 41,344 housing units to decent, safe, and sanitary conditions in fiscal year 2000, compared with 968 in fiscal year 1999. Other efforts to improve the efficiency of HUD's operations and improving accountability, met with more limited success, and were hampered by inefficient distribution of staff and of workload, a lack of resources for program monitoring, problems with contractor performance and its oversight of contractors, and weaknesses in programmatic and financial management information systems.

The current Administration took office in January 2001, saying it was dedicated to maintaining HUD's progress, and placing improved management among the Department's highest priorities. Eighteen months ago, Secretary Martinez came before this Committee and said:

³GAO-01-248.

⁴U.S. General Accounting Office, *HUD Multifamily Housing: Improved Follow-up Needed to Ensure That Physical Problems Are Corrected*, GAO-01-668 (Washington, DC: June 21, 2001).

⁵U.S. General Accounting Office, *HUD Management: Progress Made on Management Reforms, but Challenges Remain*, GAO-02-45 (Washington, DC: October 31, 2001).

“My first priority will be for HUD to continue to put its own house in order, so we have the institutional fortitude to provide the housing and community renewal opportunities needed by so many families and so many neighborhoods. The Department of Housing and Urban Development must be healthy itself, if we are to deal with the challenges before us. And while former HUD Secretaries Kemp, Cisneros, and Cuomo have built a foundation for strength, there are a great many areas of institutional weakness that must be addressed. GAO and the HUD Office of Inspector General have identified similar program and management areas needing the most improvement, including: The Federal Housing Administration’s single-family mortgage insurance risk; the impact and continuing evolution of HUD’s 2020 management reform effort; and the failure to integrate financial and information systems.”

According to HUD’s most recent performance plan, the Department is using our reports and those of its Inspector General as a “roadmap” for making management improvements. In August 2001, the Administration unveiled the President’s Management Agenda, including a set of HUD-specific initiatives to strengthen management of HUD’s programs by, among other things, improving FHA’s management of risks throughout the mortgage insurance process, improving the performance of public housing agencies and providers of multifamily housing, and reducing overpaid rent subsidies. The plan contained specific goals and timetables to, for example, eliminate most if not all fraud in the appraisal process, increase the percentage of HUD-assisted public housing units meeting physical standards, and reduce overpayment of rent subsidies by at least one-half. The plan also establishes a goal of removing our high-risk designation from all HUD programs by 2005.

To further its efforts to improve its management, HUD also recently undertook a series of organizational realignments. According to HUD, these efforts are designed to streamline its organization, establish clear lines of responsibility and reporting, and more effectively administer its programs. One of the more prominent realignments involved moving HUD’s REAC, responsible for physical and financial inspections of public housing and assisted multifamily properties. The REAC, which formerly reported to the Deputy Secretary, now reports to the Assistant Secretary for Public and Indian Housing. In addition, the Department’s Enforcement Center, which formerly reported to the Deputy Secretary, now reports to HUD’s General Counsel. Similarly, the Chief Procurement Officer, which formerly reported to the Deputy Secretary, now reports to the Assistant Secretary for Administration. In addition, Regional Directors in the field have been given additional discretion to redeploy staff to address workload imbalances. According to HUD officials, to more effectively administer HUD’s programs, other centers and offices are being studied for elimination or consolidation.

As I discussed earlier, clearly the creation of the REAC and the Enforcement Center, to name two, were positive developments that yielded real results.⁶ And it is worth noting that at the time HUD established these centers, it did so because it believed that the Office of Public and Indian Housing and the Office of Housing—the offices within HUD that were originally responsible for these activities—were not effectively carrying out these functions. The Secretary, as the leader of his organization, has the prerogative to align the organization as he sees fit, consistent with his vision and management style. But it is important that the progress made to date not be jeopardized. For example, regardless of how REAC is aligned, HUD must continue to make progress improving the physical condition of public and assisted multifamily housing properties. Ultimately the success or failure of any organizational decision will be viewed in that light.

We are now beginning to address these realignment issues as we assess the progress HUD and other Federal Agencies have made as part our Performance and Accountability and High-Risk Series. In making our determination of high-risk at HUD and other Federal agencies, we will consider the corrective measures that agencies have planned or have underway to resolve their management challenges, as well as the status and effectiveness of these actions. Some of the key factors we will consider in making our high-risk determination at HUD include the extent to which HUD has demonstrated commitment to resolving its management deficiencies, strengthened controls to address its management deficiencies, proposed appropriate corrective action plans for its remaining management challenges, imple-

⁶HUD’s 2020 Management Reform Plan created several new centers to consolidate, among other things, HUD’s single-family mortgage insurance activities, Section 8 program financial management support, and the processing, reviewing, and awarding of categorical and formula grants for the Office of Public and Indian Housing. These centers were discussed in greater detail in our October 2001 report.

mented effective solutions that will be substantially completed in the near term, and implemented solutions that get to the root cause of its management deficiencies.

We will review the current status of HUD's Single-Family Mortgage Insurance and its Multifamily Rental Housing Assistance Program areas and the actions taken to address weaknesses. At that time, the Agency must have demonstrated concrete results, with a clear path toward addressing any remaining problems. To conduct our assessment of high-risk, we will review, among other things, HUD's strategic plans, annual performance plans and reports, accountability reports, and audited financial statements. This information will be supplemented by relevant GAO reports, Inspector General reports, and other independent analysis. Finally, the ultimate determination will be based on the independent and objective judgment of GAO analysts.

HUD Faces Crosscutting Management Challenges

As HUD works to improve accountability and control over its high-risk program areas, it will find that it faces several issues that cut across its efforts to improve its programs. I would like to turn now to these management challenges and discuss with you, HUD's progress and challenges in the areas of: (1) human capital management, (2) acquisition management, and (3) programmatic and financial management information systems. Successfully addressing these challenges will help determine whether HUD can sustain the progress of its management reform efforts, address its high-risk program areas, and make progress toward its goal of becoming a high-performing organization.

Human Capital Is The Most Pressing Management Challenge Facing HUD

Human capital permeates virtually every effort to improve HUD's programs, including its ability to oversee the performance of housing authorities and property owners, acquire needed systems, and successfully execute and monitor contracts. Insufficient staffing and inefficient distribution of workload affects HUD's ability to operate efficiently and ensure the accountability of its programs. It increases HUD's need to hire contractors to perform activities and affects its ability to oversee contractors and hold them accountable for performance. HUD has the opportunity to develop a strategic human capital management approach to ensure that the Department has the right staff in the right numbers with the right skills in the right places and that HUD can continue to meet its mission and goals in the future as large numbers of experienced employees retire. As we have previously reported,⁷ a comprehensive workforce plan should be linked to the accomplishment of an Agency's mission and include the following elements:

- The kind of work its staff should be doing now and in the future.
- The knowledge, skills, and abilities needed by staff to do this work.
- The capabilities and developmental needs of the current staff.
- The appropriate staff deployment across the organization.
- Any gaps that exist in knowledge, skills, and abilities.
- An approach for filling the gaps in the knowledge, skills, and abilities of staff through recruiting and hiring.

While HUD has begun to do workforce planning by identifying the resources required to do its current work, the Department does not have a comprehensive workforce plan. HUD's most significant workforce planning activity to date has been its Resource Estimation Allocation Process (REAP). The purpose of REAP was to systematically estimate the number of employees HUD needs to do its work based on its current workload and operations and HUD used the results to estimate staffing level ceilings for the Department's fiscal year 2003 proposed budget. HUD's workforce planning effort is currently focused on responding to major human capital deficiencies that the Office of Management and Budget identified in a 2001 evaluation conducted as part of the President's Management Agenda. This effort is focused on specific initiatives, such as reducing the number of HUD managers and supervisors, and does not consider many of the elements that we have endorsed as necessary for comprehensive workforce planning.

In the absence of a comprehensive workforce plan, HUD faces myriad human capital challenges ensuring that it has the right mix of staff with the requisite knowledge, skills, and abilities appropriately deployed across its organization. In July 2001, we reported that HUD's Homeownership Centers, responsible for carrying out FHA's Single-Family Mortgage Insurance Program, faced staffing and workload imbalances and lacked an adequately standardized training curriculum. It also faced skill mix difficulties—for example, managers at the Centers said that it was a chal-

⁷ GAO-02-45.

lenge for their staff to shift from performing insurance endorsements and property disposition activities to monitoring contractors that now do this work for HUD. In our survey of HUD managers for our January 2001 report, over 70 percent stated that staff training needed to be increased in the areas of information systems, technical skills, and other areas.

Without a comprehensive workforce plan, the Department will not be as prepared as it could be to recruit and hire staff needed to pursue its mission. During the 1990's, HUD underwent considerable downsizing, reducing its staff from around 13,500 to about 9,000 by March 1998. The need to recruit and hire is exacerbated by the upcoming wave of potential retirements that HUD faces. More than 80 percent of HUD's workforce is in the core professional grades—GS 9 through 15; and, by August 2003, half of this workforce will be eligible to retire. HUD has done little outside hiring in the last decade and some vacant positions have gone unfilled while others have been filled through lateral transfers, promotions, or the upward mobility of administrative staff into professional positions. HUD is delegating more hiring authority to its regional directors and has established an internship program that may help address some staffing shortages. However, the internship program is in the early stage of its development and does not address the needs for hiring at the mid-level ranks of Government that could be disproportionately affected by the impending wave of potential retirements.

Acquisition Management Challenges Remain

A second crosscutting challenge area for HUD is its management of acquisitions. As you know, Mr. Chairman, by design HUD relies on the performance and integrity of thousands of intermediaries such as mortgage lenders and public housing agencies to fulfill its mission. But as HUD has downsized its own staff over the past few years, its reliance on private contractors has increased substantially. This reliance, as measured by contracting obligations, grew by more than 62 percent from fiscal year 1997 to fiscal year 2000; and HUD officials have estimated that the total number of contractor staff assisting in delivering HUD services may nearly equal its own. As a result, effective management of acquisitions is crucial to HUD's success in meeting its mission and addressing its high-risk Single-Family Mortgage Insurance and Multifamily Rental Housing Assistance Program areas. Ineffective oversight of contractors adversely affects HUD's ability to carry out its mission and to deliver key services and exposes HUD's programs to the additional risk of fraud, waste, abuse, and mismanagement. HUD faces the challenge of ensuring that, where it relies on contractors to perform its mission, it will hold these contractors accountable for results. Holding the contractors accountable for results requires processes and practices in place to effectively monitor contractors' performance, an acquisition workforce with the right workload, training, and tools to carry out its mission, and programmatic and financial management information systems that support HUD's efforts to ensure accountability in its acquisitions.

HUD has undertaken a number of actions over the past few years to: (1) improve the processes and practices in place to effectively monitor contractors' performance, (2) improve the training and professional development of its acquisition workforce, and (3) improve its contracting information systems. While progress has been made, our recent and ongoing work suggests that HUD is still experiencing difficulties in each of these areas and thus faces continued challenges in its ability to hold contractors accountable for results. For example:

- To improve monitoring, HUD provided guidance to its employees to incorporate more systematic methods into its monitoring efforts, including the use of risk-based assessments to focus HUD's staff efforts. In fiscal year 2000—around \$600 million of the almost \$1.3 billion in contracts were for contracts supporting HUD's single-family and multifamily housing programs. On the single-family side, we have reported numerous problems over the past few years in HUD's oversight of its contractors handling the marketing and management of HUD's single-family properties,⁸ as well as those performing oversight of lenders and appraisers.⁹ More recently we have been examining property management contracts in HUD's multifamily housing program. From our ongoing work, it appears that few of the staff overseeing HUD's multifamily housing program property management

⁸U.S. General Accounting Office, *Single-Family Housing: Stronger Measures Needed to Encourage Better Performance by Management and Marketing Contractors*, GAO/RCED-00-117 (Washington, DC: May 12, 2000).

⁹U.S. General Accounting Office, *Single-Family Housing: Stronger Oversight of FHA Lenders Could Reduce HUD's Insurance Risk*, GAO/RCED-00-112 (Washington, DC: April 28, 2000); U.S. General Accounting Office, *Single-Family Housing: Weaknesses in HUD's Oversight of the FHA Appraisal Process*, GAO/RCED-99-72 (Washington, DC: April 16, 1999).

contracts use monitoring plans or employ risk-based strategies to determine the necessary level and frequency of monitoring. We have observed that oversight and monitoring of contractors are largely remote—consisting mainly of e-mails, telephone calls, and reviews of contractors’ progress reports—and site visits to properties by HUD staff do not occur routinely. Our ongoing work indicates that, absent a systematic approach to monitoring and with a limited amount of on-site monitoring occurring, HUD’s ability to effectively monitor contractors’ performance and identify and correct problems may be limited.

- To improve the training and professional development of its acquisition workforce, among other things, HUD created full-time Government Technical Representatives (GTR)¹⁰ to help oversee contracts, provided this staff with new training, and required that their training and qualifications be formally certified. However, HUD’s progress in strategically managing its acquisition workforce has been slow. For example, we recently learned that HUD’s managers were not aware of 143 staff members who were performing the GTR function and had not received the appropriate training. Our work suggests that HUD’s training records are poorly maintained, making it difficult for its managers to know which staff have received training and thus where to focus scarce resources. HUD has not yet used the results of its REAP study to remedy disparities that it has identified in the contracting workload within the Office of the Chief Procurement Officer, and a plan to identify critical skills and career paths for its acquisition workforce has been in draft for over 2 years. Like HUD’s overall human capital challenges, HUD’s ability to hold its contractors accountable for performance depends, in no small part, on its success in building an acquisition workforce with the right workload, training, and tools to carry out HUD’s mission.
- To improve its contracting information systems HUD implemented a single system—HUD’s Procurement System—to track contract obligations, milestones, and contractor performance. However, our ongoing work suggests that this System does not adequately support HUD’s managers or acquisition workforce because the data it contains are not complete, accurate, or consistent. As a result, Mr. Chairman, staff overseeing contractors in HUD’s multifamily program reported relying primarily on spreadsheets and other informal systems they have created and maintained in order to monitor contract milestones and task orders. These informal systems are not subject to HUD’s internal controls, audits, information security protocols, or other standards and thus expose HUD’s contract activity to internal control weaknesses and the potential for waste, fraud, abuse, and mismanagement. In addition, HUD’s managers do not have reliable information on the number of active contracts it is managing or the amount of funds that have been obligated for them, and cannot readily determine how much money HUD has spent overall on its contracting activities. Finally, performance data that would assist in evaluating contractor performance is not systematically tracked in HUD’s Procurement System, although the System allows such activity. HUD’s ability to manage and monitor its acquisition activities is limited by weaknesses in its programmatic and financial management information systems, which are needed to ensure accountability in its acquisitions.

At this Subcommittee’s request, Mr. Chairman, we are continuing our work on HUD’s acquisition management and will be reporting to you on the results of this work in September 2002. We are examining potential improper payments at HUD, including in its multifamily housing acquisition activities, and will be issuing our report on this subject later this year.

Programmatic and Financial Management Information Systems Challenges Are of Long-Standing and Continuing Concern

Finally, Mr. Chairman, the effectiveness of HUD’s programmatic and financial management information systems continue to raise concerns. Responsive programmatic and financial management information systems are critical to HUD’s ability to meet its mission, deliver key services, and establish sufficient management control over its programs and operations. As our work has shown, ineffective programmatic and financial management information systems adversely impact HUD’s programs and operations and its staff’s ability to effectively monitor its programs, recipients, and contractors. They also limit HUD’s ability to collect accurate infor-

¹⁰The Government Technical Representative acts as the Contracting Officer’s representative concerning the technical and performance aspects of a contract. He or she is responsible for ensuring that the contractor is using the most efficient and cost-effective methods and is also the principal judge of contractor performance, including the quality and timeliness of work and products.

mation to report on program results and effectively manage its operations. Concerns about the ability of HUD's financial management systems to effectively support the timely preparation and audit of the Department's annual financial statements are long-standing, and as of today, HUD is still in the early stages of developing a plan for resolving them. Accordingly, developing a plan to acquire and implement programmatic and financial management information systems that meet the Department's needs and comply with Federal financial system requirements is crucial to HUD's efforts to successfully address its high-risk program areas.

Mr. Chairman, concerns about the effectiveness of HUD's programmatic and financial management information systems are not new. We have reported that HUD lacks the programmatic and financial management information systems necessary to ensure accountability over its programs since 1984. This February, for the eleventh year in a row, HUD's Inspector General cited the lack of an integrated financial management system in compliance with Federal financial system requirements as a material weakness in its audit of the Department's financial statements. HUD is aware that its programmatic and financial management information systems pose serious challenges and has taken steps to address them. For example, HUD has undertaken extensive efforts to modernize both HUD's and FHA's programmatic and financial management information systems, improve financial reporting, institute a more rigorous planning and review process over its information technology capital investments, and bring FHA's systems into compliance with Federal financial systems requirements. HUD is preparing to obtain contractor assistance to help analyze its current status and develop plans for improving the Department's financial management systems and providing the needed support to its programs.

Our recent work and that of the Department's Inspector General has shown however, that despite efforts to improve its programmatic and financial management information systems, serious challenges still exist. HUD's systems do not today fully support its programs—including its Single-Family Mortgage Insurance and Multifamily Rental Assistance Programs—nor effectively support the timely preparation and audit of the Department's annual financial statements. For example:

- To oversee lenders in HUD's Single-Family Mortgage Insurance Program, staff at the Department's Homeownership Centers must collect and manually compile information from multiple systems and sources in order to target high-risk lenders for review and to identify and investigate potential fraud cases. As we reported in October 2001, this creates a greater risk of error and increases the likelihood that problems will go unnoticed.¹¹
- To review and approve applications for mortgage insurance on multifamily properties, HUD uses, in some cases, an expedited process where lenders, rather than HUD, underwrite the loans. However, our ongoing work on HUD's Multifamily Accelerated Processing Program suggests that HUD's system for tracking the status of multifamily loan applications does not allow it to reliably track and record several key processing steps in the accelerated approval process. As a consequence, HUD's field staff develop and maintain spreadsheets and other informal systems to monitor the status of HUD's actions.
- HUD's efforts to ensure that only eligible families occupy housing units and that those families pay the correct rents—a key component of its strategy to address its high-risk program areas—were, according to HUD's Inspector General, impeded by limitations in its information systems. In particular, the Inspector General reported that the lack of complete, current, consistent information on tenants and rents limited HUD's ability to effectively conduct computerized income matching—a strategy that has been used to identify and deter tenants who underreport their incomes and to address some of the causes of the estimated \$2 billion in overpayments and errors on rent subsidy calculations. For this and other reasons, the Inspector General raised concerns about the effectiveness of HUD's income matching program.¹²
- HUD continues—due in large part to deficiencies in its financial management systems—to rely on extensive ad hoc analyses and special projects to develop account balances and necessary disclosures for the Department's annual financial statements, according to HUD's Inspector General. These extensive efforts indicate that HUD's financial management systems cannot currently provide the day-to-

¹¹ U.S. General Accounting Office, *Single-Family Housing: Current Information Systems Do Not Fully Support the Business Processes at HUD's Homeownership Centers*, GAO-02-44 (Washington, DC: October 24, 2001).

¹² Office of Inspector General, *Audit of U.S. Department of Housing and Urban Development (HUD) Financial Statements for Fiscal Years 2001 and 2000*, 2002-FO-0003 (Washington DC: February 27, 2002).

day information needed by its managers to effectively manage and monitor the Department's programs.

- HUD needs high-quality software for the systems it uses to support its financial management needs, as well as its Single-Family Mortgage, Multifamily Rental Housing Assistance, and other program needs. In September 2001, we reported that HUD's success or failure in acquiring software depends largely on specific individuals, rather than on well-defined and disciplined software acquisition management practices. Until this is strengthened, HUD is exposed to a higher risk that software intensive acquisition projects will not consistently meet mission requirements, perform as intended, or be delivered on schedule and within budget.¹³

Mr. Chairman, we are continuing to review HUD's progress in improving its financial management systems and plan to report to you on these issues by December 2002.

In conclusion, Mr. Chairman, HUD's management reform efforts over the past few years resulted in major changes throughout the Department as it worked to resolve its management challenges. HUD has been moving forward over the past few years and has made credible progress, and the current Administration has reaffirmed an emphasis on and commitment to improving management at the Department. However, despite this progress and renewed commitment, HUD still faces considerable challenges in ensuring that its continuing management reform efforts will amount to the sustainable improvements in performance needed to resolve weaknesses in its high-risk program areas. Successfully addressing the crosscutting challenges in the areas of human capital, acquisition management, and programmatic and financial management information systems can help determine whether HUD can sustain the progress it has made, meet its challenges, and make progress toward its goal of becoming a high-performing organization.

This concludes my prepared statement. I will be happy to respond to any questions you or the other Members of the Subcommittee may have.

PREPARED STATEMENT OF CAROLYN FEDEROFF

PRESIDENT, AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES
AFL-CIO, COUNCIL OF HUD LOCALS, 222

JULY 24, 2002

Chairman Reed and Subcommittee Members, my name is Carolyn Federoff, and I am President of the American Federation of Government Employees, Council of HUD Locals. We represent approximately 6,500 bargaining unit employees throughout the Department of Housing and Urban Development. Thank you for providing us with an opportunity to present the views of HUD's employees on those areas that GAO continues to identify as "high-risk," including HUD's staffing crisis and its oversight of HUD's contractors.

In addition to gathering input directly from HUD's employees, we have also reviewed GAO's reports on HUD's designation as "high-risk" and the Government-wide human capital management crises. Our testimony is presented in two parts, the first focusing on human capital management, and the second on HUD's oversight of its contractors in the single-family and rental housing assistance programs. Nonetheless, it should be noted that we believe that GAO's focus on improvements needed in the single-family and rental housing assistance programs is integrally related to and exacerbated by HUD's Human Capital Management.

Summary

Because of the impending retirement of the Baby Boom generation, every American employer faces the potential for a human capital crisis. HUD, however, faces a crisis imposed by both demographics and politics. Both Agency management and Congressional critics have, in their turn, starved the Agency for needed staff. HUD programs are designed to be implemented and to operate over long periods of time—in FHA programs, an average of 30 to 40 years. These time periods exceed the normal career span of most workers. Setting these programs in motion necessitates a commitment to ensure quality staff will be available over the life of the program. Additionally, it is unacceptable to merely plan to contract the work out; contractors

¹³U.S. General Accounting Office, *HUD Information Systems: Immature Software Acquisition Capability Increases Project Risks*, GAO-01-962 (Washington, DC: September 14, 2001).

still need quality oversight by employees who are familiar with the program from inception to close.

HUD will need to recruit. But it will also have to work hard to retain the employees on board. The results of a recent Office of Personnel Management survey reveal a HUD workforce whose morale is generally below that of their private sector counterparts. Only 47 percent of responding employees are satisfied with the organization, compared to 63 percent in the private sector. Issues fueling dissatisfaction include lack of involvement with decisions affecting work, lack of information received from management and lack of training received for the job. (See attached copies of HUD intranet.)*

We offer the following recommendations to help HUD meet its staffing challenges and its obligation to preserve the public trust:

- The Agency has averaged 300 FTE below ceiling for the last several years. Rather than taking the staff away, Congress must insist that ceiling be met.
- The Agency contracts out because of a lack of staff and without regard to cost. Congress should insist that the Agency only contract out when it is cost-effective and will provide equal or better service. Congress must also provide budget authority to hire more staff when it is cost-effective, and should reject arbitrary contracting out quotas.
- The Agency largely eliminated its Human Resources capacity in the field in 1995. Lack of access to Human Resources professionals adversely impacts field managers and supervisors. This staff should be restored.
- HUD's Human Resources staff is overly bureaucratic, failing to explore innovative ways to recruit and retain staff. The Agency needs to empower Human Resources staff to find solutions, not roadblocks.
- HUD has little or no data about its staff—it cannot provide retention data for past intern programs, nor even provide a quarterly list of employees being hired into or leaving the bargaining unit. It needs to restore its ability to retrieve hard staffing data on a monthly basis.
- The Agency is currently relying on interns to meet hiring needs. These interns are on 2-year appointments. Although the Agency has verbally expressed an intent to extend permanent positions to these employees, most will feel compelled to look for other jobs in the last year of their appointment, because of student loan debt. To retain these employees, the Agency should extend permanent positions to the interns after 1-year (the standard probationary time period for new employees).
- To help recruit and retain staff, the Agency should negotiate with the union for quality programs such as loan forgiveness and child care subsidy, and effectively implement programs already negotiated such as telecommuting.

We are pleased to testify that Secretary Martinez, through Deputy Secretary Jackson, has worked with us on several of these issues. He has expressed a commitment to reject costly contracting out, provided a management directive supporting implementation of telecommuting, and directed his staff to investigate loan forgiveness. We hope to be able to testify next year that, with open Congressional support, the Administration has made progress toward achieving the recommendations set forth above.

Human Capital Management: GAO's Four Human Capital Cornerstones and HUD

In its report "A Model of Strategic Human Capital Management," GAO sets forth four Human Capital Cornerstones (GAO-02-373SP).^{*} GAO intends these Cornerstones to provide guidance in assessing an Agency's Human Capital strategy. For each Cornerstone, there are two Critical Success Factors. The GAO report sets forth examples of behavior it identifies as Level 1, 2, or 3 in connection with each Critical Success Factor. Level 1 is the worst, while Level 3 is the optimum according to GAO. We address each of the four Cornerstones as they apply to HUD separately:

Leadership: The Agency has a Human Capital Crisis Because Throughout the 1990's HUD Devalued Human Capital and Human Capital Resource Managers

HUD goes through organization charts the way a person with a cold goes through Kleenex. On some level, this constant shifting devalues human capital. But between the years of 1994 and 1998, the Agency actively undertook reforms that exacerbated the human capital crisis and precipitated the virtual elimination of human capital resource management at HUD. We offer two examples from many:

^{*}Held in Committee files or available at the GAO website.

In 1995, the Agency reorganized the Office of Administration, severely slashing HUD's Human Resource Departments in the field by consolidating ten personnel departments into three. The goal was to reduce the ratio of HR staff to HUD staff from 1:60 to 1:100. Access to personnel specialists became more difficult for managers, supervisors, and employees. Personnel records have been poorly maintained. Also in 1995, the magic 7,500 number was the focus of much attention. As confirmed by GAO and HUD IG reports, this number might as well have been drawn from a hat; the Agency had no basis for believing this was the optimum number of staff. The contracting out problems we face today are a direct result of this baseless FTE goal.

Comparison to the GAO Critical Success Factors Table (GAO-02-373SP at p. 10) demonstrates that with regard to its staff, the Agency was at Level 1—the Agency viewed the employees as “costs to be cut rather than as assets to be valued.” The Agency was below Level 1 with regard to the role of the Human Capital Function—human capital management was so severely reduced that it could not even be described as a support function.

It is our opinion that the past devaluation of the Human Capital Function is critically interfering with the current Administration's ability to evaluate and address the Human Capital crisis at HUD. Among other things, it interferes with recruitment and retention. For example, the Agency has consistently been 300 FTE below ceiling for several years. Despite what we generally agree are good efforts to recruit and hire staff, Agency projections indicate that we will continue to be below ceiling at the end of this fiscal year. Additionally, we have proposed, and the Administration has expressed interest in, several retention strategies such as a loan forgiveness program. Lack of adequate Human Resource staff has delayed rapid review and implementation of this and other retention programs.

Agency managers, supervisors, and employees need a commitment from the Congress and the Administration to rebuild the Human Capital Management Function at HUD. We need Human Resource employees to evaluate staffing needs, actively recruit, create retention strategies, and to otherwise assist employees, their supervisors and managers in the accomplishment of HUD's mission.

Strategic Human Capital Planning: No Data To Drive Human Capital Decisions

Agency management has little or no data with which to make Human Capital decisions; they no longer receive staffing lists, information on accessions and separations, nor retention rates for special hires; and estimates of needed staff are suspect.

It was not always so. Attached are excerpts from the last “Monthly Staffing List” of which I am aware. It is dated September 1990 and covers Region I.* It is an example of the kind of data that used to be routinely available and provided to field managers and union representatives. It includes a summary of staff on board, hires, separations, and projections for the coming month. It discloses the total number of employees authorized versus those actually appointed in each office and each program area. It provides information on total number of permanent, temporary, part-time, and summer help. The sample page is a detail from the Office of Counsel, showing total number of staff, vacancies, temporary appointments (EXC APPT NTE 08-11-91), and duty stations other than Boston (D/S: Manchester). The total report includes similar pages for each program area in Region I.

Sometime shortly after 1990, the Agency stopped providing the Monthly Staffing List. With the loss of this single report, managers in Region I no longer had the information necessary to firmly determine if staff turnover continued to be 17 percent, or one in six, as it had been the previous year. They would no longer clearly know that their ceiling had increased 20 positions since last year, or that they were 46 employees, or 10 percent, under ceiling. Having this data helped managers focus on potential problem areas in Human Resource management, such as retention issues and recruitment needs. But this data no longer exists, or is no longer shared.

We suspect that it simply no longer exists. During the past 6 months, we have asked HUD's Labor Relations staff to please provide quarterly reports on accessions and separations from the bargaining unit. We just want to know who has joined HUD and who has left during a quarter. Labor Relations has been unable to meet our request, because the information systems do not support this simple retrieval of information.

The fundamental lack of data hampers this Administration's ability to address the Human Capital crisis. We continue to make decisions in the dark.

For example, the union has raised concerns with the dependence on intern programs to meet hiring needs. Based upon anecdotal evidence, we are concerned that

*Held in Committee files.

interns may have lower retention rates than other employees hired under traditional civil service authorities. To explore this, we have asked the Office of Human Resources to provide data comparing the retention rates of the last major intern program that occurred in 1989 and 1990, to the retention rates for other employees hired through traditional means during the same time period. The Agency has been unable to provide this data. The Agency is putting all of its hiring eggs in one basket without sufficient knowledge of the strengths or weaknesses of that basket.¹

At Congressional direction, the Agency is working toward better estimation of staffing needs. But employees, supervisors, and managers remain unconvinced that accurate estimations will be produced by either REAP or TEAM—Resource Estimation and Allocation Process and Total Estimation Allocation Mechanism. REAP was intended to provide a benchmark for staffing needs, while TEAM is intended to periodically update the benchmark. However, despite hours of review, many of us cannot understand what REAP has actually measured—does it measure what staff should be doing, or what staff are actually doing? The process for both REAP and TEAM asked staff to record what they are actually doing. It seems obvious that we would have enough staff to do that which staff are doing. But the question remains, do we have enough staff to do that which we are supposed to do by law, rule or regulation? Do we have enough staff to protect the public's interest and deliver the mission of the Agency? We remain unconvinced that REAP or that TEAM achieve this.

To this Administration's credit, the Deputy Secretary has specifically advised managers to provide staffing projections based upon REAP or any other supportable evidence. To our knowledge, REAP is being used as a floor, not a ceiling. But we urge Congress to also consider REAP as a floor.

Comparison to the GAO Critical Success Factors Table for this cornerstone (GAO-02-373SP at p. 11) indicates that the Agency is at or below Level 1—Agency managers and supervisors lack fundamental information that can help them determine human capital needs and strategies for effective recruitment and retention, much less how human capital approaches link to organizational performance objectives.

Agency managers, supervisors, and employees need a commitment from Congress and the Administration to rebuild sources of data concerning human capital resources at HUD. Additionally, we need wide spread sharing of data, so that managers, supervisors, and union representatives can hone in on problems before they become crises.

Acquiring, Developing, and Retaining Talent:

Bureaucracy Persists in HUD's Approach to Human Resource Management

As employees of HUD, we can commiserate with HUD's clients about HUD's proclivity for bureaucracy; we are its daily victims, driving down employee morale. Although the 1994 HUD program reorganizations included strategies to focus HUD employees on results not processes, on finding solutions not red tape, Human Resources has not consistently adopted this same strategy. Managers, supervisors, and employees too often hear, "it can't be done that way." The "can't do" philosophy is at striking odds to the "can do" philosophy HUD employees endeavor to apply to HUD's programmatic work.

A small example: Some Human Resource offices have advised supervisors that they may not authorize the accumulation of credit hours for travel.² They cite restrictions on the use of overtime for travel, equating credit hours to overtime despite the fact that credit hours are specifically excluded from the definition of overtime. [See 5 U.S.C. Section 6121(6).] Being able to authorize employees to accumulate credit hours helps supervisors better accomplish the Agency's mission while preserving resources; if a field review takes 6 hours, and travel will take 4, a supervisor can authorize the employee to accomplish the work in one 10-hour day, rather than ordering the employee to take 2 days and authorizing the use of scarce travel dollars

¹The union is also without hard data. Nonetheless, based upon our interviews with interns, we believe critical to the retention of interns is their knowledge that they will be offered permanent positions well in advance of the expiration of their 2-year term. At the end of their first year (the standard probationary period for civil service employees), the Agency should decide and inform interns which of them will be offered permanent positions. Faced with thousands of dollars of student loan debt, after their first year, interns will be forced to actively seek other employment. We can only stem the tide by timely extending permanent positions.

²"Credit hours" are hours "in excess of an employee's basic work requirement and which the employee elected to work so as to vary the length of a workweek or workday." See 5 U.S.C. Section 6121(4). Most employees at HUD work under a flexible work schedule established under 5 U.S.C. Section 6121.

for hotel and per diem. These simple solutions, however, are withheld from Agency supervisors and employees.

Comparison to the GAO Critical Success Factors Table for this cornerstone (GAO-02-373SP at p. 12) indicates that the Agency is at or below Level 1—the Agency has yet to explore the range of tools and flexibilities available under current laws and regulations.

Agency managers, supervisors, and employees need a commitment from this Administration that it will bring to Human Resources the same “can do” spirit other areas of HUD are encouraged to display. Working together, we can craft solutions that meet HUD’s mission and employees’ needs.

Results-Oriented Organizational Cultures: The Human Capital Crisis Makes It Less Likely Employees Will Focus On Results Rather Than Processes

The GAO has identified “empowerment and inclusiveness” as key components of a results-oriented organization. The Agency took steps to empower and include supervisors and employees in the 1994 reorganization. Program employees were specifically authorized to remove impediments to the accomplishment of organizational goals when the employee could determine that an alternative process would meet both client and Agency needs.

Comparison to the GAO Critical Success Factors Table for this factor (GAO-02-373SP at p. 13) indicates that in the mid-1990’s, the Agency hovered between Levels 2 and 3—the Agency was lessening its reliance on standardized approaches and was encouraging employees, supervisors, and managers to work together toward innovation and problem-solving.

Before a person can run, however, he must first be able to walk. Similarly, before employees can innovate and explore alternative processes, they must first be adept at the current process, understanding the whys and wherefores. When they understand why a rule is in place, they can better craft a solution that meets the Agency’s and client’s needs simultaneously.

HUD’s Human Capital crisis threatens this capability. Daily, we are losing the employees that know the whys and wherefores. Our programs typically include 40-year commitments between HUD and the client. Even if programs are eliminated, they are only eliminated as to future clients. Our relationship to current clients continues for that program. We need staff expertise for a period of time greater than the normal career of any one employee. Succession planning must be the norm, not the exception for an Agency such as HUD.

Additionally, the nature of HUD’s programs tends to result in an ebb and flow of problems; if there is a problem, it is likely to manifest itself either at the beginning or at the end of its 40-year term. For example, the problems associated with a new development will either happen shortly after it begins renting up (for example, problems with projected market-share, etc.) or will happen toward the end of its involvement (for example, tenants need alternative affordable housing options, development has physical problems associated with its age, etc.).

Succession planning at HUD is hard! Making sure that we always have the quality and quantity of staff to be results-oriented is hard! It takes commitment from both Congress and the Administration.

HUD clients deserve nothing less.

HUD’s Continuing “High-Risk” Designation in the Single-Family And Multifamily Rental Housing Assistance Programs Relate Directly to HUD’s Human Capital Crisis

In its January 2001 report entitled “Major Management Challenges and Program Risks” (GAO-01-248) (hereinafter January 2001 Report),* GAO identifies the need for improvement to reduce HUD’s Single-Family Mortgage Insurance risk and to effectively and efficiently use HUD’s Multifamily Rental Housing Assistance Programs. We believe that HUD’s Human Capital crisis has directly contributed to these program problems. The lack of human capital has prompted HUD to contract out work without regard to cost, effectiveness, or efficiency. Continued loss of staff capacity has led to poor contractor oversight. We will consider examples of this in each of these programs.

Contracting Out Single-Family Mortgage Insurance Work: Employee Warnings Go Unheeded

The GAO report briefly describes the downsizing history of Single-Family Housing; in 1994, the Agency began to consolidate its single-family function, culminating in the 2020 Management Reform Plan establishment of four Homeownership Cen-

*Held in Committee files.

ters. This consolidation reduced the total staff dedicated to single-family programs by about 50 percent. Some of this reduction was achieved through increased efficiencies or program changes. A significant portion was accomplished through contracting out. (January 2001 Report at p. 15.)

The Office of Single Family always had a high level of contracting out, and most of this contracting out was appropriate. For example, when a bank foreclosed on a property and returned the title to HUD for the mortgage insurance proceeds, HUD became the property owner. As such, we became responsible for being a good neighbor, keeping the yard and house maintained while new owners were found. HUD employees agree that this was a positive use of contractor dollars. But even then, GAO and the HUD IG reported that HUD lacked staffing resources and travel funds to monitor its contractors. (See, for example, GAO/RECD-98-65.) Unfortunately, HUD was not always a good neighbor.

How did HUD respond? Instead of increasing contractor oversight, HUD contracted out more functions. Previously, HUD would market the properties, seeking always to use this resource to further multiple objectives such as promoting safe neighborhoods and the affordable housing for working Americans (for example, the Officer Next Door Program), while working to maximize return on the sale of the properties.

In 1999, HUD contracted out this marketing function. The result? In January 2001, GAO reported a projected cost of \$997 million over 5 years (at p. 14). Six months later, GAO reported that fiscal year 2000 year cost alone was \$390 million, for a projected 5-year cost of \$1.9 billion or twice as much as the original 5-year projection. (See GAO-01-590 at p. 3.) In exchange for the high expenditures, HUD has seen a mere net increase of ½ percent in the recovery of sales (January 2001 Report at p. 18). We have also seen an increase in the number of for-profit investor owners. Prior to 1999, we understand that HUD sales to owner-occupants averaged 65 percent. Since 1999, it has generally decreased and is now as low as 34 percent in Cincinnati. This is not a result of poor contractor oversight. This is the result of contracting out. The contractor does not have the same incentive to pursue policy objectives as HUD employees have. Monetary incentives cannot replace commitment to the mission.

Despite contracting out and downsizing, HUD employees have been vigilant in protecting, or seeking to protect, the mission of the Agency. HUD employees advised the HUD IG of the “flipping” scandal reported by GAO in its report at page 20. HUD employees continue to report issues to the HUD IG about duplicate payments to contractors, vandalism of HUD properties, and interference with their ability to report fraud, waste, and abuse directly to the IG. Employees recognize that a change of administration results in delays in responding to the issues identified by employees. But it has now been 18 months, and employees want to know when their voices will be heard. Single-family employees are experiencing serious morale problems because of the loss of program integrity and job satisfaction.

*Contracting Out Multifamily Rental Housing Assistance Oversight:
No Benefit for Tenants or Taxpayers, Only State and Private Bureaucracies*

The January 2001 GAO report states that “to ease staffing shortages caused by staff reductions,” HUD contracted for third-parties to administer project-based Section 8 housing assistance payments contracts (at p. 36). GAO indicates that the estimated cost was \$200 million annually. This contract was awarded solely because of staffing shortages and without regard to cost. In fact, before even one contract was signed, HUD’s IG reported that the Agency’s cost projections were faulty and the contracts “could adversely affect the integrity of the Section 8 program.” (See HUD IG 99-PH-163-0002, at p. 17.)

HUD has awarded 41 of 52 available contracts. With incentives, these contracts cost \$220 million annually—\$20 million more than originally estimated. If the remaining contracts are awarded, the cost will increase by \$61 million, or 40 percent more than originally estimated.

But whether the cost is \$200 million or \$281 million, it is far in excess of the cost of hiring staff to meet the staffing shortages fueling these contract awards. According to inflated staffing figures rejected by HUD’s Inspector General, HUD would need 1,400 staff to do this work (IG Report at p. 16). HUD’s Office of Budget reports an average cost per HUD employee in 2002 is \$88,000. This would put the maximum cost at \$123 million, or less than half the cost of these contracts.

Finally, the real tragedy of these contracts is borne by Section 8 tenants and families waiting for Section 8 subsidies. The cost of these contracts comes from the Section 8 budget. This \$158 million would fund an additional 31,200 Incremental Vouchers in the fiscal year 2003 budget. And in exchange for a loss of Section 8

funds, current Section 8 tenants are left to work with multiple bureaucracies, including HUD, the contractor, and in some instances, a subcontractor.

The January 2001 GAO report focuses on the challenge HUD faces in closing the gap between the number of households eligible to receive housing assistance and the availability of assistance (at p. 27). Congress needs to step to the plate and provide HUD with the means to close the gap; Congress needs to provide HUD with the funding to hire the staff necessary to forego the Section 8 Contract Administration contracts.

There will be mounting pressure for Congress to allow this wasteful spending to continue. Contractors in their States are making ludicrous amounts of money under these contracts. For example, MassHousing (formerly the Massachusetts Housing Finance Authority) makes \$13 million annually to replace the work done by 20 staff in HUD's Boston Office. Rather than bowing to the pressure of contractors, Congress should consider the 2,220 families in Massachusetts that could be receiving rental assistance in 2003, and the 31,200 nationwide.

Conclusion

Frequently with Congress' support, HUD has maintained a history of ineffective human capital management. Consequently, the crisis that faces all American employers with the impending retirement of the Baby Boom generation is exacerbated at HUD. And because HUD's programs are implemented and operated over a 30- to 50-year period, HUD needs time for departing staff to mentor new staff. We cannot replace journey-level experienced staff with entry-level staff. It takes years to learn the programs sufficiently that employees can take educated risks to meet client needs while meeting HUD's program objectives. This level of expertise cannot be replaced by contractors. Even if it could be replaced by contractors, it defies explanation to replace it at costs far in excess of hiring staff.

Finally, to compete against the rest of the marketplace hungering for workers to replace Baby Boomers, HUD must think and act innovatively and flexibly by offering programs such as loan forgiveness, child care subsidies, and telecommuting; HUD must empower its employees by providing them with information, training, and involvement in the decisionmaking process. HUD must show that it is a responsive employers. And Congress must support HUD in these endeavors.

**RESPONSE TO WRITTEN QUESTIONS OF SENATOR REED
FROM STANLEY J. CZERWINSKI**

Multifamily Housing

Q.1. There have been some recent changes to the Public Housing Assessment System (PHAS). Can you explain why HUD has chosen to adjust the standards for public housing so that they are lower than those for assisted housing?

A.1. In 1997, as part of its 2020 Management Reform Plan, HUD instituted a new approach for evaluating public housing authorities' overall performance and for helping them improve their performance. HUD began collecting data for all four PHAS indicators in 1998, and for fiscal year 1999, it computed, for each housing authority, as core for each indicator, as well as a total PHAS score. HUD used these scores to test the system but not to classify housing authorities' performance. HUD planned to implement PHAS fully; however, the Congress directed HUD to conduct further testing and to obtain an independent evaluation of PHAS.

HUD is currently revising PHAS, attempting to make it more responsive to the concerns of residents and the public housing industry, before implementing it fully. The current system is considered an interim system, effective for public housing authorities with fiscal years ending between September 30, 2001 and September 30, 2002. As a result of these discussions with stakeholders regarding their concerns and possible solutions, and after further consideration by the Department, HUD made two interim scoring changes. First, under the Physical Condition Indicator all five areas—site, building exterior, building systems, common areas, and dwelling units—will be inspected, and the information will be captured in the system. But for assessment purposes, the Physical Condition score will be derived only from the deficiencies observed in the building systems and dwelling units. These two indicators were selected because they have the greatest impact on residents' living conditions. Second, HUD made some minor changes to the Financial Condition Indicator. During the interim period HUD expects to give extensive consideration to potential improvements to PHAS, which should result in further changes.

Q.2. You have looked at the Public Housing Assessment System and concluded that it is generally a good system. In GAO's view, should HUD implement this system?

A.2. We believe that having a system for objectively assessing the physical and financial condition of public and assisted properties is an essential step for HUD to adequately address its high-risk program areas. The interim PHAS assessment system should provide a broader and more reliable basis for evaluating housing authorities' performance than did the prior Public Housing Management Assessment Program (PHMAP). As a result, full implementation should increase the potential for PHAS to identify the authorities' problems. In addition, we believe that HUD should continue to evaluate PHAS and make improvements to arrive at a final public housing assessment system that all parties agree will identify and provide for the correction of long-standing problems at public housing authorities.

Q.3.a. The Department's workforce study shows that the OMHAR needs 91 full-time workers to do its work, yet it only has 80 employees currently. There seemed to be some confusion at the hearing about OMHAR's staffing levels and HUD's REAP study results. What was the number of staff recommended by the REAP study for the OMHAR?

A.3.a. The Resource Allocation Estimation Process study, issued in July 2001, assessed the staffing needs for all departments in HUD. The study recommended that OMHAR have a staffing level of 91 full-time equivalent personnel to carry out its operations.

Q.3.b. How many positions are currently filled?

A.3.b. For fiscal year 2002, HUD authorized OMHAR a staffing level of 85 full-time equivalent personnel. As of July 2002, OMHAR had 82 full-time staff.

Q.3.c. What is the appropriate number of deals that should be restructured per year?

A.3.c. The number of deals that will be restructured in coming years will be based largely on the number of expiring Section 8 contracts with above market rents. OMHAR estimates that the number of Section 8 contracts expiring with above-market rents will be 570 in fiscal year 2003, 211 in fiscal year 2004, and 85 in fiscal year 2005. However, the number of completed restructurings in a year may not equal the number of expiring above market Section 8 contracts in a given year because of the length of time it takes to process the restructurings, owners that opt-out of the program, or other factors.

From July 2001 through June 2002, OMHAR completed 413 restructurings, or an average of 34 completed restructurings per month. OMHAR did experience a decline, however, in completed restructurings during the past year because, according to HUD, some restructurings were delayed until guidance was issued on new Mark-to-Market legislation. HUD estimates that the number of completed restructurings will increase now that guidance on the new legislation has been issued and the delayed restructurings can be processed.

Human Capital

Q.4. Was there a contract proposal for HUD to go beyond the REAP study to identify the number of people actually needed for future mission needs? What happened to that proposal?

A.4. HUD awarded a contract to develop a strategic workforce plan that proposed to analyze future workforce requirements, the skills and competencies of the HUD workforce, and the skill gaps and changes in skills needed in the workforce. In May 2001, the HUD Secretary issued a memorandum terminating the contract for this strategic workforce planning and integrating the planning activities with the ongoing REAP studies. A HUD official told us that the contract was terminated due to budget constraints and that the work would be done in-house as resources became available. As we recommended in our July 2002 report on HUD's Human Capital Challenges (GAO-02-839), we believe that it is essential that HUD move forward in assessing future workforce requirements, the

skills and the competencies of its workforce, and the skill gaps and changes in skills needed in the workforce.

Financial Management

Q.5. We understand that GAO is currently undertaking a review of improper payments at HUD. Can you briefly discuss the implications of improper payments and the general types of circumstances that result in such payments?

A.5. Improper payments include errors, such as duplicate payments and calculation errors; payments for unsupported or inadequately supported claims; payments for services not rendered or to ineligible beneficiaries; and payments resulting from fraud and abuse. Such payments are often the result of poor or inadequate internal control.

As you know, internal controls serve as the first line of defense in safeguarding assets and in preventing and detecting fraud, abuse, and errors. Heads of agencies are required to establish a system of internal control consistent with our *Standards for Internal Control in the Federal Government*.¹ During our analysis of various Federal entities' payment processes, we identified common internal control weaknesses that sharply increase the Government's vulnerability to improper payments, including weaknesses in the review and the approval processes, lack of procurement training, and ineffective monitoring of operations, such as contractor performance.

As stated in our *Standards for Internal Control in the Federal Government*, transactions and other significant events should be authorized and executed only by persons acting within the scope of their authority. However, although the review of transactions by persons in authority is the principal means of assuring that transactions are valid, we found that certain review and approval processes were inadequate in all agencies reviewed.

Effective management of an organization's workforce—its human capital—is also essential to achieving results and is an important part of internal control. Training is key to ensuring that the workforce has the skills necessary to achieve organizational goals. However, we found that a lack of or inadequate training contributed to the weak control environment at several agencies.

Monitoring to assess the quality of performance in the course of normal operations is another essential component of an organization's internal control structure. Program and operational managers, including contact managers, should monitor the effectiveness of control activities as part of their regular duties. We found ineffective monitoring systems at several of the agencies we reviewed.

Given the billions of dollars in payments made by the Federal Government each year to recipients nationwide and abroad, deficiencies in controls raise the risk that erroneous or fraudulent payments could make their way through agencies' processes without being prevented or detected.

¹ *Standards for Internal Control in the Federal Government* (GAO/AIMD-00-21.3.1), was prepared to fulfill our statutory requirement under the Federal Managers' Financial Integrity Act of issue standards that provide the overall framework for establishing and maintaining internal control and for identifying and addressing major performance and management challenges and areas at greatest risk of fraud, waste, abuse, and mismanagement.

Acquisition Management

Q.6. What mechanisms does HUD have in place to allow it to evaluate contractor performance?

A.6. HUD has two basic mechanisms to evaluate contractor performance; the first is the ongoing oversight of the contract and the second occurs when the contract is closed-out.

First, HUD staff serving as Government Technical Representatives (GTR's) and Government Technical Monitors (GTM's) play a crucial role in evaluating the performance of contractors on an ongoing basis throughout the life of a contract. The GTR is often the Department's primary point of contact with a contractor and is the principal judge of contractor performance, including the quality and timeliness of work and products. GTM's assist, on a part-time basis, the GTR's on the day-to-day technical oversight of the contractors' performance.

The second mechanism that HUD has in place to evaluate contractor performance occurs when the work under the contract is completed and it is administratively closed. When a contract is closed-out, HUD's GTR's complete a "Contractor Performance" form that scores the contractor on categories such as quality of performance, cost control, and timeliness. The scores for these categories are then averaged to obtain a performance score. HUD retains a copy of the form in the official contract file. Additionally, HUD's centralized contracting system was modified to track contractor performance; beginning January 2000, the Deputy Secretary required that HUD would begin entering contractor performance data in the system for all new contracts over \$1 million.

Our past and ongoing work on HUD's contracting practices suggests HUD's mechanisms for evaluating contractor performance may not be sufficient to ensure that contractors are held accountable for results. For example, few of the staff overseeing HUD's multifamily housing program property management contracts use monitoring plans or employ risk-based strategies to determine the necessary level and frequency of monitoring and that the amount of on-site monitoring is limited. Absent a systematic approach to monitoring and with a limited amount of on-site monitoring occurring, HUD's ability to effectively monitor contractors' performance and identify and correct problems is impaired. In addition, although HUD's centralized contracting system has the capability to track contractor performance, by and large it is not being effectively utilized for this purpose.

Q.7. It sounds like GAO is planning to highlight acquisitions management as a new management challenge. Why do you believe this is so significant?

A.7. Acquisition management is a significant issue at HUD because as the Department has downsized its own staff over the past few years, its reliance on contractors has increased substantially. This reliance, as measured by contracting obligations, grew by more than 62 percent from fiscal year 1997 to fiscal year 2000; and HUD's officials have estimated that the total number of contractor staff assisting in delivering HUD's services may nearly equal its own. As a result, effective management of acquisitions is crucial to HUD's success in meeting its mission and addressing its high-risk

Single-Family Mortgage Insurance and Multifamily Rental Housing Assistance Programs areas. Ineffective oversight of contractors adversely affects HUD's ability to carry out its mission and to deliver key services and exposes HUD's programs to the additional risk of fraud, waste, abuse, and mismanagement.

Reorganization

Q.8. Do you have any concerns that putting the oversight function under the control of the program function may compromise the independence of REAC?

A.8. REAC is responsible for centralizing and standardizing the way HUD evaluates the condition of the housing portfolio. One of REAC's key responsibilities is to monitor and assess the physical condition of properties and Public Housing Authorities in which HUD has a financial interest. To do this, HUD established a specific standard for conducting physical inspections: The Uniform Physical Condition Standards (UPCS). Independent HUD contractors perform the physical inspections. According to PIH and REAC officials, neither the inspections protocol nor the use of contractors will be changed under the realignment.

As I stated in my testimony, the creation of REAC was clearly a positive development that has yielded real results. And, it is worth noting that at the time HUD established these centers, it did so because it believed that the Office of Public and Indian Housing and the Office of Housing—the offices within HUD that were originally responsible for these activities—were not effectively carrying out these functions. The Secretary, as the leader of his organization, has the prerogative to align the organization as he sees fit, consistent with his vision and management style. But it is important that the progress made to date not be jeopardized. For example, regardless of how REAC is aligned, HUD must continue to make progress improving the physical condition of the public and assisted multifamily housing properties. Ultimately the success or the failure of any organization decision will be viewed in that light.

Q.9. How many assets overseen by REAC are FHA assets? How many are public housing?

A.9. REAC assesses the physical condition of about 30,000 multifamily housing properties that are subsidized and/or insured by HUD. REAC also assesses the financial condition for over 20,000 of these properties. In addition, REAC is responsible for assessing the performance of about 3,300 public housing authorities (PHA's). As part of the PHA's assessment, REAC conducts an independent physical inspection of each authority's properties. In total, there are about 14,000 public housing properties.

**RESPONSE TO WRITTEN QUESTIONS OF SENATOR REED
FROM CAROLYN FEDEROFF**

Human Capital

Q.1. Could you discuss the union's position on the REAP study?

A.1. We believe the methodology of REAP results in an underestimation of Agency staffing needs.

The REAP study does not accurately reflect the work that should be done in accordance with HUD's Handbooks, regulations, and policies. The methodology used by the REAP consultants leads us to believe that they studied what people actually do, not what they should be doing. Therefore, if a Handbook states that a field review will be done every 3 years, but due to staffing constraints the office only conducts reviews every 5 years, the REAP study would report staff needs based upon the practice of conducting field reviews every 5 years.

The value of the REAP study remains in establishing at least this as a benchmark—a uniform standard of staffing for every office. This benchmark can help identify the inequity in staffing between offices. However, it is our opinion that REAP does not fully address the issue of staffing needs.

Q.2. Does it provide adequate information for the hiring of new staff?

A.2. REAP provides useful information for hiring new staff, but it is not complete information.

As set forth above, REAP can provide useful information to determine staffing inequities between offices. The Agency can use REAP to determine which offices are understaffed relative to each other. However, because REAP only captures what people actually do and not what they should be doing, REAP does not fully capture staffing needs. We believe REAP underestimates staff needs.

Q.3. What has the current Administration's response been to filling the 300 FTE positions still open?

A.3. In the past month, the Agency has announced a "hiring 9/30" initiative. It is our understanding that this is an effort to fill remaining vacancies. The union is aware that the Agency is canceling flextime options and is introducing mandatory overtime for its Human Resources staff through September in order to complete the initiative.

Earlier this year, the Agency embarked on an aggressive hiring program for interns. As stated in my earlier testimony, the union is concerned that these employees have been brought into temporary positions, as opposed to permanent positions. Regardless of whether an employee is brought in as temporary or permanent staff, all employees serve a probationary period. However, employees brought in as permanent focus only on their performance during the first year. Employees brought in as temporary, including interns, are forced to also focus on securing employment after their term ends. This creates an incentive to leave Government service.

Our goal should be to foster career incentives. In an Agency where programs are designed to last decades, our hiring and retention strategies should similarly be designed to last decades.

Q.4a. Your testimony talks about HUD's inability to provide union officials with simple data about the HUD staff, such as retention data for past intern programs or a listing of the employees being hired into or leaving bargaining units. Why is this data important?

A.4a. There are different reasons for seeking this data. First, and most basic, our union has a statutory obligation to represent bar-

gaining unit employees; we need to know who is in and out of the bargaining unit to meet this responsibility.

Second, deductive reasoning is a generally accepted means of decisionmaking. Just as the oversight committee holds hearings to collect facts before making decisions, the Agency should collect human resource facts before making decisions. My statements above concerning the potential problems of an internship program are based upon an understanding of human nature. They are not, however, supported by any independent data. The Agency has participated in internship programs before; we believe that it would be better to assess the results of previous intern hiring programs to determine: (1) if the Agency should rely so heavily on the program this time, and (2) how the program can be structured to be more successful.

But the Agency lacks the basic data to engage in deductive reasoning on Human Resources issues. Other areas where data would be useful include: Determining which locations or program areas have high turnover, and assessing the causes and cures; reviewing supervisory to staff ratios; comparing staff resources between offices; and more.

Q.4b. Why is this type of data not available?

A.4b. We cannot say for certainty that it is not available, or that it is not used. All we can say with certainty is that information that was generally available to field management and union representatives 10 years ago is no longer made available. When we request the kinds of information we routinely received 10 years ago, we do not receive it. For example, on April 3, 2002, we requested quarterly reports showing all additions to and deletions from the bargaining unit. More than 5 months later, we have yet to receive the information. Field management no longer has access to regional staffing reports.

Q.4c. What would HUD need to do to obtain this data?

A.4c. We suspect that as HUD has contracted out its Human Resources data systems, it has failed to include in the work specifications requirements for report and data generation. HUD should review these contracts and rewrite the work specifications to include this basic data generation (for example, changes to the bargaining unit and staffing reports), and to include the ability to search the system for more sophisticated data information on an as needed basis (for example, success of past intern programs).

Acquisition Management / Contracting

Q.5. How does contracting out HUD's functions affect employee morale?

A.5. Terribly. Poor performance and/or the high cost by contractors affect employee morale on three levels:

- As employees: It says to employees that even bad contractors are better than Federal employees. It identifies us as the enemy of good Government.
- As housing professionals: Poor performing contractors betray our commitment to the mission of the Agency—decent, safe, and san-

itary housing, strong neighborhoods and communities, and equal access to housing.

- As taxpayers: High-cost contractors waste our tax dollars. We pay taxes, too, and knowing the profound waste of taxpayers' dollars is galling.

Over time, employees respond in one of two ways: They either leave because they care too much, or they stay and, to survive, decide they must care less. HUD creates minimalists—employees who do the minimum to survive.

We do not want to be minimalists. We want to be valued, and we want our programs to be vital and valuable. Bad contracting adversely affects employee morale.

Q.6. What are the downsides to contracting functions out? What are the benefits?

A.6. The answer to this question could involve a dissertation—the downsides range from the obvious to the subtle. But in an effort to keep it simple, we will set forth a few of the downsides, with suggestions of where contracting is beneficial:

- The adverse impact on employee morale is described above.
- Contracting out entire functions leaves the Agency susceptible to crises in the event of contractor failure. Crisis was narrowly averted when a Single-Family M&M contractor failed early in the program only because the Agency still had knowledgeable staff available to pick up the pieces. With each passing year, there are fewer and fewer trained employees to step in where Single-Family M&M contractors fail. We recommend that no more than 60 percent of a function be contracted out, so that the Agency maintains a pool of trained employees.
- HUD programs are designed to last decades, but contracts are for 3 to 5 years. Turnover in contractors is as detrimental to HUD programs as a high turnover of HUD staff. Institutional knowledge is valuable when working with long-term programs. Contractors should be reserved for instances when the Agency has a short-term quantifiable project. For example, it is reasonable to use contractors to build a database—to review HUD files, extracting information for keying into a database system.
- Contractors experience a learning curve, just as HUD employees do. It takes approximately 3 to 5 years for a new HUD employee to move to the journey-level of their position. It is reasonable to assume that it would take contractor staff a similar amount of time. In the Section 8 Contract Administration contracts, HUD staff have been providing training and guidance to contractor employees—but rather than paying HUD for the training, HUD pays the contractors as though the contractors were fully performing their duties! Employees report that in some instances, work has been returned by the contractor for completion by HUD, and HUD paid the contractor as though the work had been performed. Contracts must be written so that any guidance, even that provided as part of the oversight process, come at a cost. (This may seem harsh, but if a HUD employee performing a monitoring review of a contractor finds that the contractor needs guidance on the proper method of doing something, then it

stands to reason that the contractor has failed to do it properly. Therefore, the contractor should forfeit some remuneration for either failing to do the work correctly in the first place or for receiving instruction from a HUD employee on how to do it right the next time. This is doubly true if the work was returned to HUD for completion by HUD.)

- HUD should not contract out functions involving the oversight of clients to whom HUD has delegated independent or significant autonomous authority. For example, in Multifamily Housing, the Agency increasingly relies on the MAP process. In this process, the mortgagee conducts the appraisal, mortgage credit, and other technical reviews. Currently, HUD's technical staff review and approve this work in determining the maximum insurable mortgage. The Agency has listed the HUD technical staff as staff whose work can be contracted out. Contracting out this work would result in no actual HUD oversight of the technical data underlying the determination of maximum insurable mortgage. (We would be very happy to discuss at greater length the MAP process and the potential parallels to the former "Co-Insurance" program.) A similar situation is possible in the single-family direct endorsement process, where HUD is contracting out the quality assurance review of mortgagees approved for direct endorsement of FHA single-family insurance. In essence, this results in a contractor overseeing a contractor.
- Contracting can result in a release of business sensitive data to industry competitors. For example, for several years the Agency used "delegated processing" for the review of documents related to mortgage insurance processing. The usual contractors were almost always HUD clients—so that on some deals they were seeking mortgage insurance and in other deals they were reviewing the mortgage insurance deals of their competitors. If any of them submitted a request for information under the Freedom of Information Act for the details of their competitors' proposed deals, we would deny the request under the business sensitivity exception; however, as HUD contractors, they had full access to their competitors' information. The Agency should not engage in contracting that includes this potential.
- By law, the contractors cannot make policy judgments, because policy judgments are inherently governmental. Yet in some instances, being responsive to client needs requires judgment about policy objectives. This is one of employees' chief complaints about the administration of the Single-Family M&M contracts. Single-family homes in HUD's portfolio are a potential affordable housing asset that could be used to further the mission of the Agency. But this involves policy judgments that contractors cannot engage in. It is noteworthy that the percentage of owner-occupied sales of HUD homes has decreased dramatically since the M&M contracts.
- It is reasonable to contract out the care and the maintenance of single and multifamily homes coming into HUD's portfolio. HUD does not employ groundskeepers, plumbers, and other persons capable of providing this service.

Q.7. What is the best way to determine which jobs should be contracted out and which should be performed in-house?

A.7. The best way to determine which jobs should be contracted out and which should be performed in-house are:

- The contract must be cost-effective. The cost-effectiveness must include the cost of monitoring contractors, as well as providing training and guidance to contractors by HUD staff.
- Core functions—functions directly related to the delivery of HUD programs—should not be contracted out more than 60 percent, to ensure sufficient trained HUD staff remain in the event of contractor failure.
- Jobs involving the oversight or monitoring of the implementation of HUD programs, expenditure of HUD funds, or processing and approval of FHA mortgage insurance should not be contracted out. These are instances where HUD is already relying on an intermediary between HUD and the delivery of service to the intended beneficiary of the HUD program. It is not reasonable to insert yet another intermediary in the form of a contractor.
- Contracts that result in the release of business sensitive data should be avoided, in order to preserve competition in the mortgage insurance industry.

We strongly believe, however, that if HUD conducted real cost-benefit analyses, most of the work currently contracted would be brought back in-house. HUD's contracting out is not cost-effective.

Q.8. Your testimony described the problem of improper payments to contractors. Please elaborate on this issue.

A.8. These problems have arisen in the Single-Family Home Ownership Centers. The best source for information on these and other problems in the HOC is AFGE Local 2032, President Irene Facha. You can reach Ms. Facha in Philadelphia at 215/656-0637 x0139.