## DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

**[Docket No. FR–4266–N–01]**

## The HUD 2020 Management Reform Plan

**AGENCY:** Office of the Secretary, HUD.

**ACTION:** Notice of the HUD 2020 Management Reform Plan.

**SUMMARY:** On June 26, 1997, Secretary Andrew Cuomo released his plan for significant management reforms at HUD. The plan is titled the ''HUD 2020 Management Reform Plan.'' The reforms contained in this plan are directed to restoring HUD's reputation and credibility by improving the efficiency and effectiveness of the Department's programs, operations and provision of services. This notice presents in the **SUPPLEMENTARY INFORMATION** section of this document the Secretary's HUD 2020 Management Reform Plan.

**FOR FURTHER INFORMATION CONTACT:** For further information, contact the Office of Departmental Operations and Coordination, the Department of Housing and Urban Development, 451 Seventh Street, SW, Washington DC, 20410, (202) 708-0988. (This is not a toll free number.) Comments or questions can be submitted through the Internet to Candis __B.__Harrison@hud.gov. More information on HUD's Management Reform Plan can be found on HUD's Home Page on the World Wide Web at http://www.hud.gov, and the plan is available at http://www.hud.gov/reform/mrindex.html.

**SUPPLEMENTARY INFORMATION:**

### Introduction

*''I believe America needs a government that is both smaller and more responsive. One that works better and costs less. One that shifts authority from the federal level to states and localities as much as possible* * * One that has fewer regulations and more incentives. One, in short, that has more common sense and seeks more common ground.''*

President Clinton, *Between Hope and History*

*''Everyone in government knows big challenges remain. It is time for faster, bolder action to expand our islands of excellence and reinvent entire agencies—time to entirely reinvent every department of government.''*

Vice President Al Gore, *The Blair House Papers*

### HUD 2020 Management Reform Plan [1]

*HUD is just over 30 years old—it is time to prepare HUD for the next 30 years.*

**Table of Contents**

*Executive Summary*

Road Map to This Plan

*Offers a guide for how to use this report*

The Six Major Reforms

*Describes reforms that cut across the entire Department.*

Business Line Reform Plans

*Describes specific issues and reforms for each business line*

Public and Indian Housing (PIH)
Housing
Community Planning and Development (CPD)
Fair Housing and Equal Opportunity (FHEO)
Chief Financial Officer (CFO)
Administration

Appendices

*Provides Additional Details on the Implementation of the Reforms*

Appendix A: Buyout Plan
Appendix B: Annual Management Planning Strategy
Appendix C: HUD Salaries and Expenses FTEs
Appendix D: HUD 2020 Structural Reform
Appendix E: Consolidated Centers
Appendix F: HUD Salary and Staff Reductions

### Executive Summary

*''For HUD to fulfill its mission, it must have credibility—with Congress, with local government and with the customer. They must all believe that HUD has the competence and capacity to perform its functions. It's time HUD put its own house in order.''*

Secretary Andrew Cuomo

*Responding to Change*

Since HUD was created in 1965, economic and social conditions in the United States have changed dramatically. Yet, in many ways, the Department has not kept pace with that change. Over the years, Congress, the General Accounting Office, and HUD's own Inspector General have recognized this mismatch and criticized the Department for failing to modernize itself by updating its systems, improving accountability and performance, and reducing red tape.

Given these chronic problems, a priority for HUD in the next few years must be its management. Specifically, is the agency taking significant steps to clean up its act? Are new systems in place to better steward HUD's funding? Are agency operations better coordinated across functions? Is the agency defining a clear mission with clearly delineated organizational roles? Is it managing workforce and workload? Is it using new technology? Are its employees acquiring new skills?

This plan presents a fundamental management overhaul that, when carried out, aims to bring HUD in line with the times, ensuring its relevance and effectiveness into the 21st Century. The reform package focuses on getting HUD's own house in order, on managing its programs and people more efficiently and responsibly. It is a combination of significant organizational changes, as well as proposed legislative reforms, that HUD has submitted to Congress over the past few months, including: The Housing Management Reform Act of 1997; Housing 2020: Multifamily Management Reform Act of 1997; and the Homelessness Assistance and Management Reform Act of 1997.

*Compassion without competence has failed America and HUD;* it has let too many landlords profit without providing adequate service, left too many public and assisted housing residents living in squalor, and abandoned too many neighborhoods to decay. HUD is just over 30 years old and it is time that we prepare HUD for the next 30 years. This plan says that management must come first, that a new empowerment policy for a new century requires a new HUD, a HUD that works.

Five major forces have combined to create the need and urgency for the Department redesign proposed here. Those forces include: The groundshaking economic shift as the U.S. transitions from an industrial to an information society; passage of the Welfare Reform Bill, the most significant change in American poverty policy in 30 years; the economic and moral imperative to rein in an explosive national debt and balance the budget; the discrediting of top-heavy, Washington-driven government; and the legacy of mismanagement at HUD, which has made it dangerously vulnerable to waste, fraud, and abuse of taxpayer funds.

*America's Economic Transition*

Despite the fact that America's economy is booming, too many neighborhoods and communities are

[1] Special Note: In January 1997, President William Clinton asked incoming Secretary Andrew Cuomo to transform the Department of Housing and Urban Development through the President's vision for community empowerment. The next six months demonstrated unparalleled creativity and energy by the Department. This product reflects the input and insights of many, including: Vice President Al Gore, David Osborne, James Champy, Ernst & Young LLP, members of Congress, the Office of Management and Budget, and the HUD Office of Inspector General. Most of all, it was made possible by the talented civil service staff at HUD.

being left behind in the current revolutionary economic transition. This transition has supplanted the national market with a global market, and is replacing industry with information and knowledge as the prime economic drivers. Yet because so many of our urban economies were built on industry, their transition into this new era has been particularly tumultuous and is still far from complete—and far from successful. Throughout the 1970s, as our economy moved into the earliest stages of deindustrialization, cities were hit hard—population and incomes fell, poverty and unemployment increased, crime and social problems became more intense and intractable.

To succeed in this economic transition will require new skills, new strategies, and new cooperation, not just between government and business, but between cities and suburbs. HUD must marshal all its resources to help cities thrive in the new economy.

*Making Welfare Reform Work*

President Clinton made good on his promise to end welfare as we know it, and now the hard work begins: moving millions of our fellow citizens from welfare to work at a time when global competition for low-skill jobs is great. HUD cannot escape the spotlight of welfare reform. We are the Department responsible for housing more than a quarter of the families on welfare today; the agency with potentially the largest economic development portfolio in the federal government; and the branch that deals most directly with the fate of cities, where most people on welfare live. We must recognize that our long-term success as a Department will largely depend on the degree to which America can make welfare reform work for all our citizens.

*Balancing the Federal Budget*

Both President Clinton and Congress have committed to balance the federal budget by the year 2002, the first time the budget would be in balance since 1969. The need to cut funding to meet that vital goal pressures all federal agencies to get the most bang for every taxpayer buck. In short, we are forced to find ways to do even *more* to meet the demands of a society in transition, ensuring that everyone coming off welfare can find and hold a job, while downsizing staff and saving money in every way possible. That means HUD must be leaner and smarter, meeting its mandate in a creative, competent, common sense way.

*A New Model of Government*

While most of America's major institutions have changed dramatically over the past few decades, government—particularly government inside the Washington beltway—has often resisted reform. At times, we act as if we are insulated from the powerful forces reshaping the American economy and society.

But that is wrong. Government must change—and change dramatically—if it is to remain relevant. Vice President Gore has led the way for this Administration through his effort to reinvent government. As he wrote in the Blair House papers, a small but powerful handbook for organizational change, ''The need to reinvent was clear. Confidence in government—which is simply confidence in our own ability to solve problems by working together—had been plummeting for three decades. We either had to rebuild that faith or abandon the future to chaos.''

Former HUD Secretary Henry Cisneros recognized this need for change. Under his leadership, HUD began that task a few years ago, proposing sweeping and broad changes to many of its policies and programs. However, Congress failed to enact changes in any authorizing legislation. Indeed, no comprehensive housing authorizing legislation has been enacted over the past six years.

This plan says that we can—we should—retain our core goals, but we must change how we carry out those goals, making HUD run less like a 30-year-old bureaucracy and more like a smart, new business.

*The HUD Legacy*

Finally, and most importantly, HUD itself has been plagued for years by scandal and mismanagement. It is the only federal agency cited by the General Accounting Office (GAO) as being at ''high risk'' for waste, fraud, and abuse. Congress regularly raises concern over the efficiency and soundness of its programs. And its Inspector General still questions HUD's basic ability to provide ''reasonable stewardship'' over the billions of taxpayer dollars we administer.

These failings have made HUD the poster child for inept government. That view is damaging to the agency's ability to fulfill its vital goals—goals strongly supported by the public, such as ending homelessness, investing in cities, and moving people from welfare to work—at a time when Americans have a deep distrust and disgust with the way government tries to meet those worthy goals. When over five million people cannot afford decent housing, and hundreds of thousands go homeless, we cannot afford to waste even one dollar on inefficiency or corruption.

This plan says that enough is enough, that the era of an inept HUD must end. It proposes to change the *negative* perception of HUD by changing the *reality*—by making HUD work well.

Revitalizing HUD'S Mission

This changing context demands a shift in HUD's mission. While our traditional goals remain the same—fighting for fair housing, increasing the supply of affordable housing and opportunities for homeownership, reducing homelessness, promoting jobs and economic development—our mission must be updated, renewed, and focused.

If HUD is going to be a significant, value-added player, helping America's communities move from an industrial to an information economy, with welfare reform hanging in the balance, we must strive to empower people, giving them the tools they need to succeed. HUD must be an ally to communities, not a bureaucratic adversary; a creator of opportunities, not obstacles.

At the same time, in a balanced budget environment—and with the storm clouds of mismanagement still hovering over the agency—HUD must refocus its energy, ingenuity, and resources on eliminating waste, fraud, and abuse in all our programs.

Therefore, two distinct, yet interrelated missions for HUD are evident as we approach the new century:

Mission #1: Empower people and communities to improve themselves and succeed in today's time of transition.

Mission #2: Restore the public trust by achieving and demonstrating competence.

*Mission #1: Empowering People and Communities*

The empowerment mission is a dramatic philosophical and paradigm shift for the Department.

—Rather than top-down programs with inflexible mandates, the Department must move to bottom-up, community-driven partnerships that demonstrate a comprehensive community development strategy.

—Rather than long-term dependence, we must nurture self-sufficiency and self-reliance; the helping hand of government must help people and families become productive, taxpaying citizens. Whenever possible, we must strengthen

mainstream values of work, family, responsibility and opportunity.
—Rather than work in isolation, we must collaborate with other federal agencies, each of which provides vital community resources.
—Rather than creating a new bureaucracy for every program, we must seek out community partnerships breaking the habitual link between the need for federal action and the growth of federal bureaucracy.
—Rather than working against the free market, we must harness market forces wherever possible, using them to help people lift themselves up.

Empowerment is the right role for the federal government, a role that says ''Washington can help communities thrive, but the decisions and power must be closest to the people.'' *HUD's plan will do just that, getting a greater portion of our resources out of Washington and into communities, investing more in people and less in overhead.*

As President Clinton said in his Urban Policy Report, ''I believe in a government that promotes opportunity and demands responsibility, that deals with middle-class economics and mainstream values; a government that is different radically from the one we have known here over the last 30 to 40 years, but that still understands it has a role to play in order for us to build strong communities that are the bedrock of this Nation.''

*Mission #2: Restoring the Public Trust*

The public trust mission will restore public confidence in HUD by instilling an ethic of competence and excellence at the agency.

Our goal must be performance and product rather than process and perpetuation. We must have zero tolerance for waste, fraud, and abuse—and have the institutional courage to demand accountability from both our private- and public-sector customers. For everything we do, we must ask two questions. First, how can we do it better, cheaper, and more effectively? And second, are we taking all reasonable precautions to protect the public trust and ensure that every tax dollar is used properly?

Unfortunately, HUD continues to suffer from management troubles that have long plagued the agency. Recent reports by the GAO highlight essential steps we must take if we are going to permanently improve HUD's management. These include:

—Consolidating programs and reorganizing and retraining staff to align the agency's resources with its long-term mission;
—Developing and implementing stringent internal controls;
—Integrating financial and information management systems Department-wide; and
—Increasing program monitoring and measurement to ensure higher performance.

The agency's problems have been long in the making. We recognize that it will take a tremendous commitment of time, energy, discipline, and focus to reinvent the systems and the values that have undermined HUD's credibility and capability.

We also recognize that we cannot fulfill our empowerment mission if we fail to protect the public trust. The American people and the Congress will only have faith in an empowerment approach to urban policy if they believe we can make that approach work.

Reinventing HUD'S Management

Recognizing both the historic need and the recent forces that demand change, HUD undertook a comprehensive effort to fundamentally redesign our mission, programs, and organization. We asked outside experts—and ourselves—one question: how do we organize ourselves to ensure that we effectively and efficiently fulfill our twin missions of empowerment and public trust?

This sweeping reform was based on some basic, common sense premises:

—Start with no ''givens.'' Everything about the way we do business is on the table for discussion.
—Analyze core purposes and organize by clearly defined responsibilities, in effect creating separate ''businesses.''
—Match workload and workforce, skills and services.
—Measure and reward performance.
—Focus on changes that create the most leverage.
—Question whether the task is better performed by the private sector.
—Live in the 21st Century: master and utilize new technologies.

Driven by these principles, we assembled teams of ''change agents'' from all parts of the agency, challenging them to rethink every aspect of our management. This HUD team was then complemented with advice and assistance from the private sector, including Ernst & Young LLP, David Osborne, and James Champy, among others.

**Our process revealed several deep-seated, structural dysfunctions:**

—Proliferation of a number of small ''boutique'' programs which are highly labor-intensive.
—HUD is organized strictly by program (i.e., Office of Housing, PIH, CPD) rather than function. A functional realignment would regroup some program lines by mission and responsibility, and eliminate duplication.
—HUD is driven by process rather than performance.
—Workload and workforce are mismatched. While the Department has downsized, the workload has increased and the necessary skills for specific services in some cases do not exist within the agency.
—Management information systems have developed parochially rather than in an integrated fashion—they need a complete overhaul.
—The Department's structure is an outdated pyramid, and the headquarters/field relationship is inefficient.
—HUD's workforce has not been given a clear mission, but rather schizophrenic mandates: On the one hand, to provide assistance to communities and help them meet their needs; while on the other, to police the actions of those same communities.
—The Department's culture lacks the work ethic and ability to make stewardship of public funds a priority.

HUD addresses these breakdowns in several ways:

—The new HUD will be reorganized into discrete functions to serve distinct customer groups, rather than solely along program lines. These common functions will then either be performed within HUD or contracted out if HUD does not have the expertise or if the private sector can perform the work more efficiently.
—The culture will more clearly reward performance rather than perpetuate process.
—The structure will change from a rigid, bureaucratic headquarters/field operation into two distinct parts: (1) ''storefront,'' customer-friendly local offices that aim to provide hands-on service to communities; and (2) ''back office'' processing centers to consolidate and expedite routine processing and paperwork.
—HUD's technological systems will evolve from Jurassic-era to state-of-the-art.
—HUD's workload and workforce will be better matched according to size

and skills. This will entail critical shifts in organizational structure, positions, and personnel to reflect the aims of the new HUD.

—Everything in HUD will be driven by the twin missions: empowering people and communities and protecting the public trust.

In short, we will reduce staff from 10,500 employees to 7,500, restructure our operations, and dramatically consolidate HUD's current 300-plus programs and activities. Meanwhile, our long-term budget for programs rises—which means that the new HUD will truly be doing more with less. We will be investing a greater portion of our funding into strengthening America's communities.

HUD's transformation is clustered around six reforms.

*Reform 1:* Reorganize by function rather than strictly by program ''cylinders.'' Consolidate and privatize where needed.

*Reform 2:* Modernize and integrate HUD's outdated financial management systems with an efficient, state-of-the-art system.

*Reform 3:* Create an Enforcement Authority with one objective—to restore public trust.

*Reform 4:* Refocus and retrain HUD's workforce to carry out our revitalized mission.

*Reform 5:* Establish new performance-based systems for HUD programs, operations, and employees.

*Reform 6:* Replace HUD's top-down bureaucracy with a new customer-friendly structure.

*Reform 1—Reorganize by Function Rather Than Program ''Cylinders.'' Where Needed, Consolidate and/or Privatize*

Historically, HUD was formed by integrating several existing departments: The Office of Housing, the Public Housing Administration, the Urban Renewal Administration, and the Community Facilities Administration. These historic entities were never shed. Consequently, the Department never achieved operational efficiency, mission clarity, or organizational unity. The ''stovepipes'' of the Office of Housing, Public and Indian Housing, Fair Housing, and Community Planning and Development operate essentially independently. Accordingly, they often duplicate each others' efforts and at times work at cross-purposes, making it exceedingly difficult for communities to make sense of HUD services.

Compounding this situation, the recent workforce reduction has exacerbated the performance problems of these separate areas—and further downsizing from 10,500 employees today to 7,500 by the end of the year 2000 will increase the strain.

To eliminate these duplications, and in anticipation of even more downsizing over the next four years, this plan reorganizes the Department by function—maintaining the distinct business lines of public housing, single and multifamily housing, community planning and development, fair housing and others—but making significant connections across these business lines (i.e. the ''stovepipes'' or ''cylinders'') to maximize efficiency and dramatically improve customer service.

Having identified the common, cross-cutting functions, we then asked: How best do we meet our goals—through consolidation, privatization, or both?

Consolidation

*Program Consolidation:* HUD currently operates over 300 programs and activities, as cited in a recent Inspector General audit. After reorganization, and if Congress passes HUD's legislative proposals for program and activity consolidation and elimination, HUD will consolidate and eliminate to about 70.

*Functional Consolidation:* Under this plan, several major functions are consolidated, such as financial systems and enforcement (discussed in reforms #2 and #3). Several administrative functions are also consolidated, including:

—Real Estate Management System

Neither of HUD's twin missions—empowerment and public trust—is well served by how PIH and the Office of Housing currently operate. PIH and the Office of Housing now operate independently under separate real estate management operations, yet portfolio management for the Office of Housing's multifamily stock and for the Public Housing Authorities (PHAs) is a common function of asset management.

Public Housing now assesses its portfolio through the Public Housing Management Assessment Program (PHMAP) system. Despite recent reforms, PHMAP is often criticized for failing to provide an accurate measure of PHA portfolios.

Similarly, the Office of Housing's multifamily portfolio experiences substantial fraud and abuse in its Section 8 program, with an estimated 5,000 troubled properties nationwide.

To address these issues, the assessment of all PIH and Office of Housing properties will be consolidated and radically redesigned. *For the first time in HUD's history, all properties will be physically inspected and financially audited by outside contractors using a comprehensive and uniform protocol.* Portfolios will then receive a risk assessment based on these reports. HUD staff can thus focus on the most troubled and neediest properties.

—Contract Procurement

At the Secretary's direction, a top-to-bottom assessment of the FHA procurement system was conducted by the National Academy of Public Administration (NAPA). The study found that the current system neither responds efficiently to Department needs nor adequately ensures accountability.

As a result, the Department has asked NAPA to help improve HUD's procurement system to ensure accountability, while responding flexibly to changing program needs. The aim of reform is for staff to have the resources they need to serve their customers, while safeguarding taxpayer dollars with a system that ensures quality and value.

—Section 8 Payments

Both PIH and the Office of Housing currently operate Section 8 payment functions, often in disparate field offices; these functions will be consolidated into one Section 8 Financial Processing Center.

—Economic Development and Empowerment Service

A number of economic development and jobs skills programs now exist throughout the Department. These will be consolidated into the new Economic Development and Empowerment Service, which will target these resources to empower people and communities. Programs to be consolidated or coordinated include Economic Development Initiative, Section 108, Empowerment Zones, and job training and skills programs in PIH and the Office of Housing.

Privatization

While many of the common functions will be consolidated, some will also be privatized where efficiency or expertise dictates.

Privatized functions include physical building inspections for the PIH and Office of Housing portfolios; financial audits of Public Housing Authorities, as well as multifamily project owners and mortgagees; HOPE VI construction management supervision; legal and investigative services for the Enforcement Authority, where appropriate; and specific expertise required by the grantees through technical assistance.

*Reform 2—Modernize and Integrate HUD's Outdated Financial Management Systems With an Efficient, State-of-the Art System*

The single most glaring deficiency of the Department—and the single greatest shortfall of a Department organized by program rather than function—is the financial management systems. Currently, every program cylinder operates its own financial systems: The number of management information systems within the Department totals 89. Compounding redundancy, many of the systems can't talk to each other. This is the chief reason why the Department is on the GAO ''high risk'' list and why HUD's Inspector General says that HUD's future is ''dim.''

The new HUD will have a common, consolidated financial management information system. Fully implemented by mid-year 1999, this system will also facilitate communication between HUD, its grantees, and communities across the country. With these improvements and enhanced financial management, HUD's goal is to be removed from the high risk list.

HUD's award-winning mapping software—which HUD will soon launch in an innovative, joint public-private marketing venture—will ultimately be incorporated into the new financial system for one seamless communication and financial management system.

With the ease of an ATM, this cutting-edge mapping software will provide a graphic display of HUD funding in virtually every community in the country—helping communities better plan their future. In the system of the future, HUD employees will know the workings of the entire Department on a real-time basis. By using the best technology, we will provide faster, higher-quality service to communities, while recognizing and cracking down on problems in HUD programs.

*Reform 3—Create an Enforcement Authority With One Objective: To Restore the Public Trust*

The greatest breach of the public trust at HUD is the waste, fraud, and abuse in HUD's existing portfolio of millions of housing units. Currently, each of HUD's program offices—PIH, the Office of Housing, FHEO and CPD—operates independent enforcement functions, with different standards and procedures.

PIH, for example, considers enforcement action when a property fails its annual assessment. Solutions for troubled housing authorities have been ad hoc, ranging from judicial receiverships to HUD partnership agreements with the local housing authority. Housing, on the other hand, takes enforcement actions against landlords infrequently, as a last resort. The Department's critics note that the financial interests of the FHA insurance fund can be at odds with the social interests of the tenants.

The new HUD will combine enforcement actions for PIH, CPD, FHEO (non-civil rights compliance), and the Office of Housing into one authority. The Enforcement Authority will be responsible for taking legal action against all PHAs that receive a failing score on their annual assessment. The Enforcement Authority will also move against all Office of Housing properties that fail physical and financial audit inspections, cleaning up the historical backlog of 5,000-plus troubled Office of Housing properties. The Authority will also crack down on all CPD and FHEO grantees who fail audit standards or who engage in waste, fraud, and abuse.

HUD is also seeking new tools to strengthen its enforcement ability, such as a one-year mandatory trigger to move troubled large PHAs into judicial receivership; a performance evaluation board to help develop an improved annual assessment system for PHAs, including an expanded PHMAP; broad waivers of reporting requirements for high-performing and smaller PHAs; increased funding for multifamily enforcement; and reform of the bankruptcy laws to prevent multifamily owners from hiding behind the law to avoid prosecution by HUD and the Department of Justice (DOJ).

The Enforcement Authority will consolidate existing employees and will contract with outside investigators, auditors, engineers, and attorneys where necessary and appropriate. Lastly, this division will serve as liaison with the Inspector General, and coordinate its work with the FBI, DOJ, and the IRS.

*Reform 4—Refocus and Retrain HUD's Workforce To Carry Out Our Revitalized Mission*

Under the new HUD, no matter what area an employee works in, his or her primary mission is either to empower communities and people or to enforce the public trust.

In the past, employees were too often charged to do both at the same time. After the HUD scandals in the 1980s, all emphasis was on monitoring and enforcing regulations. At other times, the emphasis was to help the grantee do whatever it wanted. Too often, employees were asked to be facilitators as well as monitors. These charges were inconsistent and often contradictory. The new HUD realizes that both roles have a place in the Department but that they truly differ. They are distinct functions and must be performed by different individuals—and in different divisions—within the organization.

—*Community Resource Representatives:* One function is to empower the community by bringing in technical expertise, knowledge of finance programs and economic development. The culture of this position is cooperative, helpful, and accommodating, and this service will be performed by a new group of HUD employees called ''Community Resource Representatives.'' These employees will provide the first point of contact for our customers and will be the Department's ''front door,'' helping customers gain access to the whole range of HUD services.

—*Public Trust Officers:* The public trust function requires many different skills in relation to the community. Public Trust Officers must have absolutely zero tolerance for waste, fraud, and abuse; their mission is to ensure that federal funds are used appropriately and in compliance with laws and regulations. They will work in the field as the front line for monitoring and will refer significant problem cases for enforcement to HUD's new Enforcement Authority. HUD will increase the number of staff devoted to this monitoring work by directing all facilitation to the Community Resource Representatives and placing all routine processing work in processing centers, thus freeing up a number of HUD staff to work on protecting the public trust.

HUD will create training programs for each of these two new categories of employees. Training will include a broad overview of all HUD programs, while emphasizing general community development skills for the Community Resource Representatives and program monitoring for the public trust officers. Both employee categories will receive specialized training at universities, beginning in the fall of 1998.

*Reform 5—Establish New Performance-Based Systems for HUD Programs, Operations, and Employees*

Today, HUD uses an employee evaluation system that has some, but not significant, connection to program and agency long-term goals. We will explore changes to that system, as well as implement effective and meaningful Government Performance and Results Act (GPRA) performance measures designed to hold HUD staff and grantees accountable for results.

We are also seeking to change—in large part through legislation—programs

to emphasize performance. For example, inflexible, labor-intensive competitive grants will instead shift to performance-based formula grants; high-performing housing authorities will be subject to fewer onerous reporting requirements; a new board will design more effective and comprehensive measures for evaluating PHA performance; and new incentives will be developed in joint venture agreements to share financial risk and rewards for disposing of defaulted FHA mortgages.

The new HUD will emphasize product over process, performance over paperwork. Encouraging achievement, giving staff the tools they need to be accountable, and rewarding results is the new culture HUD embraces.

*Reform 6—Replace HUD's Top-Down Bureaucracy With a New Customer-Friendly Structure.*

With a new mission driving HUD's purposes and organization, we must redesign our structure. The top-down headquarters/field structure is outdated and outmoded; while many private sector companies reorganized and restructured a decade ago, HUD has not kept pace.

Particularly compelling—and relevant—models of this kind of reorganization can be seen in the financial services field. Over the past decades, many banks, like Citibank and NationsBank, consolidated routine functions into centralized ''back office'' processing centers and established ''store-front'' customer offices closer to their markets. Using this plan, HUD will adopt a similar model over a four-year period.

Organized by function instead of by program, our newly consolidated operations will be located in processing centers, while HUD's public and grantee outreach will be conducted in community-friendly locations. It is paramount that HUD retain its scope and presence in communities across the country; HUD's 81 field offices will remain and be better focused in serving their constituents.

Steps to Implementation

Following the release of this management plan to all HUD employees, Congress, and the public, the agency will launch an aggressive implementation strategy.

That strategy includes:

—Creating new entities detailed in this plan, including a new Enforcement Authority and a national assessment center for all HUD housing stock;

—Designing, with the help of the Office of Personnel Management, a new performance planning and management program that:

- Links performance requirements to specific objectives of the Management Reform Plan;
- Creates incentives for meeting specific performance objectives; and
- Establishes new performance rating levels (e.g., ''pass'' or ''fail'') and separates performance appraisal from performance awards to tie awards to achievement of major goals.

—Continuing to request Congress to pass legislation that makes this plan work, including a public housing bill, a multifamily ''Housing 2020'' bill, and a homeless assistance programs consolidation bill;

—Contracting out such plan elements as Hope VI oversight, PIH and Office of Housing site inspection, and certain enforcement activities;

—Partnering with financial systems experts in the Treasury Department to modernize and integrate HUD's financial systems;

—Shifting organizational structures and personnel to reflect the plan's broad changes, then conducting a national talent search for new senior personnel where needed; and

—Implementing a targeted buyout plan.

Because the Management Reform Plan calls for numerous cross-program consolidations and deep-seated changes in HUD's administrative structure, HUD will assign a project manager to each of several specific reform targets. These project managers will take charge of putting these reforms in place:

- Enforcement Authority
- Real Estate Assessment Center
- Section 8 Financial Management Center
- Financial Systems Integration
- Technology Enhancements
- Community Resource Representatives/Store-fronts

Finally, the Senior Executive Service (SES) anticipated mobility and movement within the organization and in keeping with that expectation, there will be major changes throughout the Department. This plan will initiate a shift in virtually all senior management in the SES positions in PIH and Housing including: Jose Cintron will become the General Deputy of PIH, Eleanor Bacon will become DAS for HOPE VI in PIH, Joe Smith will become the Deputy for Operations in Housing and Karen Miller will become Acting DAS for Multifamily in Housing. Both Mr. Cintron and Mr. Smith will be charged with implementing the management reforms and transformation of their respective business lines.

Conclusion

A few years from now, the new HUD will be judged positively if we have corrected our most basic problems. Lessons from management reform and reengineering show that you can't do it piecemeal—the success of each individual piece of this plan is dependent on the success of the whole. To create a new HUD, we will need the full range of changes set out in this plan. The success of this reform commitment will, in part, rise or fall not just on HUD's efforts but on the efforts of its partners in Congress and communities across the country.

In its overall framework, this plan adopts a business-like structure to achieve a public purpose. It defines a clear mission divided into identifiable functions for each separate business line. It centralizes some operations for economies of scale while decentralizing other operations to improve service and innovation. It uses technology to improve efficiency—both in front-line service delivery and in the creation of back-office processing centers. It puts a new stress on enforcement and economic development, while making information on HUD's resources more widely available through computers. And it implements a broad set of performance measures to best target resources to communities in need.

We know the American people consistently support the goals of the federal government, particularly those of HUD—helping homeless people become self-sufficient, strengthening our cities, helping empower people through work. The American people see our nation's problems—they desperately want a solution and are frustrated because we haven't been able to give them one.

Americans don't want to see human beings lying in the street. They don't want to see one in five American children living in poverty. They don't want to see hungry children. Because they know we can do better. If we demonstrate that we can solve these problems, if we show them solutions that work, we will unleash a power greater than we've ever seen.

We can make that change. If we put our own house in order, showing people that HUD has both the competence and capacity to perform its vital role, we can help America make the transition into the 21st Century. We will give people a reason to believe again.

HUD's new direction *matters* to America. Without HUD, millions of Americans could not become the proud owners of a new home, could not lift themselves from welfare to work, could

not walk safely through their own neighborhood, could not escape a life on the streets to a new beginning.

What is at stake is more than just the survival and success of one agency. When we reinvent HUD, one of the most historically troubled government departments, we will have begun to restore the promise and purpose of government itself.

These coming decades, the first of a new millennium, will be both an exciting and challenging time for all Americans. We hold our fate in our own hands: neither friend nor foe will determine our national destiny—it belongs to us alone.

This plan affirms HUD's role in that new world, in charting that destiny. It affirms a place at the national table and a piece of the economic pie for all our communities. It recognizes the urgency of creating opportunity for all Americans—and the importance of accounting for every single dollar entrusted to us by millions of taxpayers.

It says that a renewed and reinvented HUD will work—if we, and our partners in Congress, are prepared for change.

## Road Map to This Plan

*Quick Guide*

The Six Major Reforms

Describes reforms that cut across the Department.

Business Line Reform Plans

Describes specific issues and reforms for each business line.

Appendix

Provides additional details on implementing the reforms

This plan is divided into three sections. The first, *The Six Major Reforms,* gives readers a compass for understanding our major changes in six reform areas:

- Reorganizing by function.
- Replacing HUD's financial management system.
- Creating an Enforcement Authority.
- Refocusing HUD's mission and retraining our workforce.
- Establishing new performance-based systems.
- Creating a customer-friendly organization.

The first section shines a spotlight on each reform area, explaining why it is relevant, what changes will occur, and who will be affected. In some cases, HUD's organization will change to implement needed reforms; in others, specific programs will change to achieve our reinvention goals. Regardless, they are reforms that will cut across the face and through the depth of what HUD is today, reconstituting the HUD of the future.

The second section, *Business Line Reform Plans,* describes the reforms each of HUD's business lines will undertake. From Public and Indian Housing to Fair Housing to Community Planning and Development, specific problems, reforms, and benefits are laid out. Each business line answers these questions: Why do we need to change? What reforms will we make? What benefits will result? What legislation, if any, do we need to make the change?

Finally, the *Appendix* provides supporting details.

## The Six Major Reforms

*''Contrary to what much experience and certainly much old wisdom tell us, the essence of reengineering lies in this principle: The larger the scale of change, the greater the opportunity for success.''*

James Champy, *Reengineering Management*

HUD cannot affect community change unless it first changes within.

To effectively bolster community revitalization and offer new opportunities for America's citizens, HUD must cast aside our outdated structures that no longer serve customers well. The bureaucracy that has swelled and become rigid over time must make way for a lean, flexible, results-oriented structure.

This transformation is driven by HUD's realization that fundamental change is critical if HUD is going to remain relevant into the next century. These reforms are the product of a bottom-to-top review of everything HUD does.

To kick off this change process, HUD pulled together dynamic thinkers from across the Department to question every aspect of our programs and processes. Complementing these change agents were outside experts from the private sector, including Ernst & Young LLP, David Osborne, and James Champy, among others, who lent additional strength and perspective to our refocusing efforts.

These ''change agents'' started with no ''givens,'' no constraints, no commitments to bygone structures—their only mandate was to question how HUD should organize itself to effectively fulfill its twin missions of empowering people and communities and restoring the public trust. Principles guiding the process emphasized changes that would match workload and workforce; focus on customers; measure and reward performance; and take advantage of new technologies.

In figuring out what to fix, change agents had to find what was broken. They identified several breakdowns within HUD's structure that prevent optimal fulfillment of our missions. They noted, for example, that HUD is driven by process rather than performance; that we are organized by program rather than function, creating wasteful redundancies; that management information systems aren't integrated; and that the current relationship between headquarters and field office responsibilities makes poor use of resources. Finally, change agents concluded that the Department's culture has not made vigilant stewardship of public funds a priority.

Next, the change agents focused on how to fix these fundamental structural flaws. Their recommendations targeted everything from creating a performance-based culture, to overhauling HUD's technological systems, to consolidating or eliminating redundant functions. Perhaps most importantly, they developed a new structure that emphasizes function, customer service, and commitment to our mission.

Change agents distilled these recommendations into six major areas of reform that affect all aspects of HUD's ability to provide the value, effectiveness, and quality demanded by our taxpaying customers. Reforms in these areas will hit home with every HUD employee, from the way we think about our purpose to how we measure progress and the tools we have at hand to deliver services.

We call these changes ''cross-cutting'' reforms. Carpenters know that cross-cutting lumber means to cut across the natural grain of the wood. Sometimes it's a little harder to do. But the results make it worth the extra effort.

Transforming HUD will involve cutting across program lines that have been in place so long they must seem as natural as grains of wood. But what seems natural in bureaucracies may only be illusion. The reforms that will transform HUD cut across outmoded structures that have too often given the illusion of efficiency, while in reality making HUD less efficient.

This section explains each of the Department's six major reforms and the organizational and programmatic changes they entail. It also describes how these reforms will contribute to a new HUD—one that partners with local communities to empower America's citizens and that scrupulously protects the public trust.

**Overview of Reforms and Specific Changes**

*#1 Reorganize by Function Rather Than Program ''Cylinders.'' Where Needed, Consolidate and Privatize*

Organizational Changes

• Create the following centers:

1. Real Estate Assessment Center for reviewing and evaluating physical inspections and financial reporting.
2. Section 8 Financial Management Center for Housing and PIH.
3. Housing: Single Family Homeownership Centers, Multifamily Centers.
4. Public and Indian Housing: Troubled Agency Recovery Centers, Special Applications Center, PIH Grants Center.
5. CFO: Accounting Center.
6. Office of Administration: Administrative Service Centers, Employee Service Center.

• Redesign contract procurement process to improve operations and oversight.

• Consolidate routine cross-operational processing into centralized back office processing centers, or hubs, in the field.

• Consolidate program administrative functions into the Office of Administration.

• Establish Economic Development and Empowerment Service, aligning various job skills and other programs from CPD, PIH, and Housing.

• Outsource legal and investigative services when appropriate.

• Outsource technical assistance to grantees when appropriate.

• Privatize physical building inspections, financial audits, technical assistance, and real estate assessments.

• Consolidate ten field accounting divisions into one accounting center within the Office of the CFO.

• Consolidate operations in 51 field offices into 17 Multifamily Centers within Multifamily Housing.

• Consolidate financial management and budget functions in CFO.

Program Changes [L=Legislation Required]

• Privatize HOPE VI construction management and development process as appropriate (L).

• Consolidate 6 homeless assistance programs (L).

• Merge Section 8 certificate and voucher programs to streamline HUD regulations and oversight (L).

• Extend FHA note sale authority permanently (L).

• Reform FHA single family property disposition to reduce staff burden, value lost while in inventory, and exposure to risk (L).

*#2 Modernize and Integrate HUD's Outdated Financial Management Systems with an Efficient, State-of-the-Art System*

Organizational Changes

• Integrate HUD's fragmented financial management system, repairing or replacing HUD's 89 separate financial management and information systems

• Use advanced mapping software system, Communities 2020, to show communities the impact of HUD funding and activity in their area and enable them to plan, track, and measure performance

• Implement HUD's new Management Integrity Plan

*#3 Create an Enforcement Authority*

Organizational Changes

• Consolidate existing organizations and employees; contract where appropriate with outside investigators, auditors, and attorneys.

• Monitor low-performing PHAs, properties failing physical and financial audit inspections, and CPD/FHEO grantees failing program compliance.

• Create a business-like entity to clean up the backlog of over 5,000 troubled multifamily properties.

Program Changes [L = Legislation Required]

• Streamline and privatize process for Housing's pursuit of negligent owners (L).

• Reform bankruptcy laws to prevent owners from using them as a refuge from enforcement actions (L).

*#4 Refocus and Retrain HUD's Workforce to Carry Out Our Revitalized Mission*

Organizational Changes

• Select and train staff as Community Resource Representatives and Public Trust Officers for all field offices.

• Downsize HUD staff from 10,500 to 7,500, using skills and resources where they are needed most.

• Develop a road map for downsizing HUD employees, including a buyout strategy and options for career transitions.

• Streamline and consolidate operations and reassign staff to high priority work.

*#5 Establish New Performance-Based Ssystems for HUD Programs, Operations, and Employees*

Organizational Changes

• Create meaningful GPRA performance measures that hold HUD staff and grantees accountable for results.

Program Changes [L = Legislation Required]

• Convert inflexible, labor-intensive competitive grant programs to performance-based grant programs, including: Tenant Opportunities, Economic Development/Support Services, Public Housing Drug Elimination, Competitive PHA Capital Funds; and six homeless programs (L).

• Deregulate high-performing PHAs and smaller PHAs by mandating fewer reporting requirements (L).

• Create a Public Housing Authority Performance Evaluation Board (L).

• Mandate judicial receivership for PHAs on the troubled list for more than one year (L).

• Reduce excessive rent subsidies to market levels on assisted housing (L).

*#6 Replace HUD's Top-Down Bureaucracy with a New Customer-Friendly Structure*

Organizational Changes

• Create neighborhood ''store-front'' service centers in communities.

• Offer single point of service to customers through Community Resource Representatives and centralize back-office centers.

• Establish a new management planning strategy.

• Streamline headquarters and redeploy staff to field.

**Discussion of Reforms and Specific Changes**

*Reform 1: Reorganize by Function Rather Than Program ''Cylinders.'' Where Needed, Consolidate and/or Privatize*

Management theorists call them ''stovepipes.'' At HUD we refer to them as ''cylinders.'' They mean the essentially self-contained program areas within HUD, Housing, Public and Indian Housing, Fair Housing, and Community Planning and Development. Insulated from the outside, operating from top to bottom in a relatively narrow way—like a stovepipe—these units duplicate each other's efforts, and sometimes work at cross-purposes. They make it hard for communities to use HUD's programs to shape comprehensive solutions.

Compounding this long-standing situation are the reductions in workforce of the last few years. From 13,500 employees in 1992, HUD has shrunk to 10,500—and plans a further reduction to 7,500 by fiscal year 2000. The reductions that have occurred and those to come will strain HUD's organization to the breaking point.

How do we compensate for the reductions? How do we correct the problems inherent in HUD's structure? The answer: Reorganize the Department by function to cut across ''stovepipes,'' eliminate duplication where possible, and focus on customer service.

Organizational Changes

The most important organizational efforts to consolidate in the new HUD involve creating both Department-wide and program-specific centers. The major consolidations are described below; a complete list of consolidated centers appears in Appendix D.

- Create Consolidated Centers

—Real Estate Assessment Center

Currently, the need to monitor activities far outstrips the abilities of both the Office of Housing and the Office of Public and Indian Housing.

The proliferation of programs itself creates difficulties for a shrinking staff. But the wide variety of smaller, highly specialized programs and the many facets of public housing options often call for skills the field office staff do not have. Consequently, FHA has an estimated backlog of over 5,000 troubled properties. And as PHAs are more accurately assessed, it is more likely that all of those that are ''troubled'' will receive help as needed early on. This will require still more attention from a lean staff already overburdened with conflicting priorities.

Even in the best of organizations such obstacles would make assessments a challenge. These challenges are further aggravated, however, by an inefficient process. Fragmented and beset by red tape, the current assessment process makes an effective and flexible response almost impossible.

Furthermore, FHA and PIH each use different standards for performing separate physical inspections of public housing and multifamily insured housing projects.

To help solve these problems, HUD will create the Department-wide Real Estate Assessment Center. At the Center, HUD staff will rigorously review data from physical inspections, based on guidelines used by PHAs, mortgagees, and lenders. They will also determine whether each project has passed or failed, using standard protocols for financial performance reviews established by the new HUD Consolidated Asset Management System (described under Reform #2).

—Section 8 Financial Processing Center

Handled by both Housing and PIH, financial documentation for the Section 8 rental assistance voucher program has been neither centralized nor easy to obtain. Without the necessary financial data, HUD has had difficulty obligating and disbursing funds. Worse yet, HUD has no electronic validation for processing payments or determining the accuracy of requests from landlords or mortgagees. This fragmented system leaves the door open to fraud—and in fact, HUD's Inspector General estimates overpayments to be in the millions of dollars each year.

To close these loopholes, the Office of Housing and PIH will establish a unified center for Section 8 payments processing. Functions will include budgeting, payment scheduling, contract reservations and revisions, financial statement revisions, rent calculations, and income verification. The electronic, integrated financial management of all Section 8 processing helps HUD by monitoring compliance and ensuring disbursement accuracy.

—Single Family Homeownership Centers

Currently, loan production, asset management, and property disposition for Single Family programs are beset by problems. Insurance endorsements are delayed; information systems are often inappropriate for staff needs; disposition of properties is poorly controlled and monitored; and staff reductions have made it difficult to deliver consistently excellent service.

One solution: consolidate all Single Family operations into Homeownership Centers, or HOCs. It is a move that will encourage economies of scale and better use of sophisticated technology.

The Office of Single Family Housing will open three Homeownership Centers. Located in Philadelphia, Denver, and Atlanta, the centers will become fully operational by fiscal year 1999. The Homeownership Centers will consolidate work formerly performed in field offices, including routine processing, loss mitigation, and quality assurance.

To jumpstart this transition, HUD will either streamline, privatize or outsource Real Estate Owned (REO) activities and will sell nearly all assigned mortgage notes.

Such consolidation and streamlining will result in faster service, better risk assessment and loss mitigation, and better loan targeting, among other benefits.

—Multifamily Development Centers

The Multifamily Centers will carry out both Asset Management and Asset Development. Asset Management will oversee and manage property assets, as well as administer programs to ensure that low and moderate income families have safe and affordable housing. Asset Development will provide a full range of development services, including applications, underwriting approval, construction inspection, and final closing.

These centers will provide leadership for HUD staff who will provide technical expertise in managing multifamily properties. Additionally, several consolidated operations will facilitate the multifamily asset development and management processes, including: the Department-wide Enforcement Authority, Section 8 Financial Processing Center, and Property Disposition.

But these are not HUD's only organizational efforts to consolidate. Others include:

- Redesign Contract Procurement

HUD recognizes that its staff can't create positive change and serve communities unless we remove longstanding roadblocks to action. One of these roadblocks is obsolete and inefficient procurement and contracting processes, long a source of frustration within the Department.

At the Secretary's request, the National Academy of Public Administration (NAPA) scoured FHA's procurement system in an assessment of what is wrong with the system and how we can fix it.

NAPA identified how procedures could be streamlined or eliminated; pointed out how we could better train staff to handle procurements fairly, quickly, and, responsibly; and suggested how ''best practices'' should be supported in the Department's operations. Everything from giving contracting staff greater authority to using Intranet and e-mail to speed up approvals was put on the table.

HUD is committed to creating a model federal government procurement system, and a road map for getting there. This new system will:

—Establish high-level procurement priorities consistent with the Government Performance and Results Act of 1993 (GPRA), focusing on performance;

—Ensure accountability by clarifying lines of responsibility and authority; and
—Respond quickly to changing program needs, becoming flexible and user-friendly.

Where frustration once was ensured and fairness questioned, procurement needs to become a tool HUD's program staff can rely on to more effectively and efficiently serve customers in America's communities.

• Consolidate Administrative Functions

Currently, many routine operations occur at field offices scattered around the country. These will be moved to a handful of centralized processing centers. We have already described four.

One other important example: The Office of the Chief Financial Officer will complete its consolidation of ten field accounting divisions into one accounting center by the end of fiscal year 1998. The CFO reviewed accounting processes to identify streamlining and consolidation opportunities.

HUD will also continue to eliminate redundant administrative functions through consolidation in the Office of Administration. To accomplish this, the Office of Administration has established three Administrative Service Centers in New York City, Atlanta, and Denver. The Centers will support field offices with such services as information technology, human resources, procurement, and space planning. In addition, an Employee Service Center in Chicago handles all payroll, benefits, and counseling services. In conjunction with adoption of new technologies, the administrative centers will ultimately dramatically reduce the need for administrative staff in each field office.

In addition, HUD will review and streamline the separate administrative operations currently being carried out by each business line in headquarters. The review will examine how administrative resources should most effectively be allocated across the Department.

• Consolidate Economic Development and Empowerment Programs

Many economic development and job skills programs are scattered throughout the Department, such as the Economic Development Initiative (EDI), Section 108, Empowerment Zones, and job training programs in PIH and Office of Housing. These will be consolidated into a new Economic Development and Empowerment Service. The result: Improved focus on community empowerment.

• Privatize Specific Functions

Sometimes it is clearly more efficient to contract with private firms. As specialists, outside firms can often do work faster and more economically than HUD, especially given the Department's sharp reductions in workforce. HUD thus plans to privatize a number of activities, as appropriate. These include physical building inspections for the PIH and FHA portfolios, and financial audits of both PIH and FHA grantees. We will also outsource legal and investigative services to the newly created Enforcement Authority (described in Reform #3) as well as real estate assessment and technical assistance to grantees.

Program Changes

In addition to changes in HUD's organizational charts, HUD is seeking legislation to allow program changes. These legislative reforms are necessary to continue and strengthen the transformation of public housing, to ensure that it works for residents and surrounding communities, and to effect management reforms that permit all HUD programs to make the most efficient, cost-effective use of scarce federal resources. Specific program changes we seek include:

• Privatize HOPE VI Construction Management

Overseeing the HOPE VI construction management process takes tremendous staff time and often calls for specialized skills the field staff may not possess. Contracting with private real estate firms, who are familiar with this type of construction management, would both ease staffing burdens and improve oversight of these urban revitalization projects.

• Consolidate Homeless Assistance Programs

A myriad of homeless assistance programs now award grants based on annual competition for funds. These competitions are staff-intensive and are an impediment to long-term planning and coordination across programs and providers. HUD's proposal would consolidate these programs and change the funding award process to a performance-based formula grant program. Permanent consolidation would remedy this time-consuming, unproductive process.

• Merge Rental Assistance Certificate/Voucher Programs

The Section 8 certificate and voucher programs currently operate under two different sets of rules. HUD's proposal would establish standardized guidelines and procedures, consolidating these programs into a uniform whole. This change would facilitate staff oversight of the program, streamline HUD regulations, and reduce the opportunity for waste and abuse.

• Extend FHA Note Sale Authority Permanently

FHA's loan asset sales program was initiated to address the substantial inventory of HUD-held mortgages, a result of the downturn in real estate markets in the late 1980s. This program has been tremendously successful in returning assets to the private sector and in generating savings for the federal government. The asset sales program has benefitted FHA in other important ways: It has increased understanding of portfolio composition and performance; helped managers refine portfolio strategies; allowed staff to focus on managing the insured portfolio to prevent defaults; and institutionalized the capacity to dispose of unsubsidized mortgages. Enactment of HUD's proposed legislation to extend this authority would perpetuate these benefits.

• Reform FHA Single Family Property Disposition

When HUD takes possession of a property after its owners default on an FHA loan, the process consumes tremendous staff time. Meanwhile, the property loses value while in HUD's inventory, and exposes HUD to risk. It is easier for HUD to find buyers for notes (mortgages on these properties) than to sell the properties themselves. FHA is considering possession of Single Family notes instead of properties upon default. HUD's proposal will also allow FHA to consider outsourcing or streamlining disposition, including using joint ventures to dispose of properties and notes—further reducing financial risk and staff time on servicing defaulted properties.

*Reform 2: Modernize and Integrate HUD's Outdated Financial Management Systems With an Efficient, State-of-the-Art System*

The Book of Genesis describes the Tower of Babel, whose completion was frustrated because its builders all spoke different languages and couldn't talk to one another.

At HUD, this is one story that rings true. The Department's single most glaring deficiency is its financial management systems. Today, every program cylinder operates its own system—a total of 89 separate systems throughout the Department.

Written in many different languages, these systems can't talk to each other. This bureaucratic Tower of Babel is the key reason the Department finds itself on the GAO ''high risk'' list and why HUD's own Inspector General says HUD's future is ''dim.''

The Inspector General (IG) has described HUD's material weaknesses and systemic management and program difficulties to Congress. The IG has argued that HUD would greatly improve its ability to address these problems if it finishes upgrading its financial management system.

Meanwhile, the GAO has sharply criticized HUD's financial management system, calling it poorly integrated, ineffective, and generally unreliable.

HUD does not dispute this assessment; since 1989 it has made many similar points in its reports under the Federal Managers Financial Integrity Act (FMFIA). And in his confirmation hearing, Secretary Cuomo stated that his top priority would be to put HUD's management systems in order and to restore effective management and financial accountability at HUD.

To effect a complete overhaul of HUD's financial management system, HUD will take these steps:

Organizational Changes

• Integrate HUD's Fragmented Financial Management System, Repairing or Replacing HUD's 89 Separate Financial Management and Information Systems

The new HUD will have a common, consolidated financial management information system. This system will ease communication throughout HUD and will allow HUD to better communicate with grantees and communities across the country.

The new system will provide quick, user-friendly access to accurate, current, and complete consolidated financial, program, and portfolio information. It will support program management decision-making and financial management, readily provide information to partners and constituents, and generate program and financial performance measurements.

The new HUD integrated financial system will incorporate the following features: Efficient data entry, support for budget formulation and execution, updates on status of funds, standardized data for quality control, security controls, and the ability to correlate program performance measures with related spending transactions in accordance with GPRA.

HUD has identified the 89 separate information and accounting systems in major use throughout the Department that fail to comply with FMFIA. These systems will be overhauled to either correct deficiencies, consolidate functions into new accounting systems, or be eliminated.

• Use the Advanced Mapping Software System, Communities 2020, To Show Communities the Impact of HUD Funding and Activity in Their Area

It was only a few decades ago that ATMs were unknown. Now we see them on every corner and Americans use them routinely, comfortably moving through a variety of transactions by pushing a few buttons.

In a way, HUD's 2020 mapping software is a kind of housing ATM. Users can move through graphic displays of HUD funding in virtually every community in the country.

The Consolidated Plan advanced mapping system, which has won an award from Harvard University's Kennedy School, will be enhanced to provide current, accurate information on where and how public housing dollars are being spent. This helps communities better understand the options open to them. It also allows every HUD employee to grasp the workings of the entire Department.

HUD will incorporate its award-winning mapping software into the new financial system to provide one seamless communication and financial management system.

HUD's Community Resource Representatives can then bring this software into the communities they serve. By interacting with other HUD program databases, Communities 2020 will allow Community Resource Representatives and non-profits to see where specific programs like Elderly Housing or Homeless Assistance are most needed—and to do so as easily as they use an ATM.

• Implement HUD's New Management Integrity Plan

Recent Inspector General and GAO reports identify a serious disconnect at the program management level between responsibility and accountability. The basic problem is that the current management control process is driven by ''external policemen''—the Inspector General and GAO. To be successful, HUD must change from a negative, externally-driven internal control process to a new business culture—a positive financial management process that is fully integrated with day-to-day operations and owned by program managers. An effective financial management system simply ensures that what should occur does occur.

How do we create a new business culture in which management monitors itself and looks at its own results? How do we make financial integrity everybody's business?

To transform HUD into an agency where fiscal prudence matches management responsibility, HUD will follow a three-part Management Integrity Plan.

First, it will make program managers responsible for their programs' financial management. We will hold them accountable for results—and reward them for excellent results.

Second, HUD will set clear, reasonable expectations and give managers the resources necessary to meet them. In particular, HUD will expand the role of its Chief Financial Officer.

Third, HUD will develop and demonstrate this new business culture by incorporating front-end risk assessments in reorganized and consolidated programs outlined in the Management Reform Plan.

*Reform 3: Create an Enforcement Authority With One Objective: To Restore the Public Trust*

Restoring public trust is a priority that drives the entire reorganization. And the greatest breach of public trust is the waste, fraud, and abuse in HUD's existing portfolio of ten million housing units.

Currently, each of HUD's housing agencies—PIH, FHA, FHEO, and CPD—operate independent enforcement divisions, with different priorities. PIH, for example, considers enforcement action when an authority fails its annual assessment, and has a variety of ad hoc solutions, from judicial receiverships to partnership agreements with the local housing authority.

FHA, on the other hand, takes enforcement action only as a last resort; the Department's critics note that the financial interest of FHA's insurance fund can be at odds with the social interests of the tenants.

Because the enforcement system clearly needs reform, HUD will make significant changes, both organizational and programmatic.

Organizational Changes

• Consolidate Existing Organization and Employees; and Contract With Outside Investigators, Auditors, and Attorneys Where Appropriate

The new HUD will combine non-civil rights compliance enforcement actions for PIH, CPD, FHEO, and Housing program participants into one new organization. This Enforcement

Authority will consolidate existing employees and contract with outside investigators, auditors, engineers, and attorneys. It will also work with the Inspector General, consult with the FBI on training staff, and share information with the IRS.

• Monitor Low-Performing PHAs, Properties Failing Physical and Financial Audit Inspections, and CPD/FHEO Grantees Who Fail Program Compliance

The new Enforcement Authority will be responsible for all PHAs that receive a failing score on their annual assessment. It will also be responsible for all multifamily properties failing the physical and financial audit inspections performed by the real estate management system. Finally, the authority will handle all CPD and FHEO grantees who fail program compliance.

• Create a Business-Like Entity To Clean Up an Estimated Backlog of Over 5,000 Troubled Assisted Properties

HUD will aggressively pursue owners of troubled HUD-insured and subsidized properties that do not meet established standards. This entity will receive ratings from the Assessment Center on properties that ''fail'' those established standards. Using professional resources under contract, the entity will: (1) Quickly identify and implement appropriate sanctions based on contractor recommendations; (2) initiate appropriate civil or criminal actions in a timely manner; and (3) proceed expeditiously to acquire, foreclose on, and dispose of the property.

When a property fails its assessment, it will be forwarded for immediate action to recover the property or misspent funds. Action may include transfer of physical assets, sanctions, acquisitions, foreclosures, and civil or criminal referrals. In the event of foreclosure, a contractor will prepare the disposition plan and dispose of the property.

General contractors will perform the work through qualified subcontractors in areas of specific expertise in three major areas: asset management, legal, and property disposition. A National Advisory Board of independent stakeholders from the private and non-profit sectors will give ongoing feedback on performance and policy and will advise on particularly sensitive issues prior to final action.

**Program Changes**

• Streamline and Strengthen the Office of Housing's Process for Pursuing Negligent Owners

HUD's legislative proposals would strengthen FHA's enforcement authority to minimize fraud and abuse in FHA and assisted housing programs. Key provisions expand the Mortgagee Review Board's ability to impose sanctions on lenders and other HUD program participants who violate HUD rules; increase equity skimming penalties and expand equity skimming prohibitions to all National Housing Act programs, Section 202, elderly, and multifamily risk-sharing pilot programs; and broaden HUD's authority to impose civil penalties and double damage remedies. These new or expanded authorities would reduce the staff burden for each enforcement action and put teeth in their ability to resolve troubled properties.

• Reform Bankruptcy Laws To Prevent Owners From Using Them as a Refuge From Enforcement Actions

Currently the bankruptcy code legitimizes non-compliance for owners who have misused HUD funds and who avoid repayment under bankruptcy protection. HUD seeks to reform Sections 105 and 362 of the Code, which make this refuge possible. HUD's proposed amendments would allow the agency to proceed with timely foreclosure of insured or assisted multifamily housing projects, while protecting the residents, the property, and the FHA insurance fund.

*Reform 4: Refocus and Retrain HUD'S Workforce To Carry Out Our Revitalized Mission*

Partly because HUD was originally an amalgam of several different organizations, its mission has never been sharply defined.

Moreover, HUD has often changed its emphasis to suit the times. After the HUD scandals of the 1980s, for example, all emphasis was on monitoring and enforcing regulations. At other times, the emphasis was to help grantees do whatever they wanted.

Under the new HUD, we will refocus our mission—then retrain HUD's leaner workforce to serve that mission. This reform includes four organizational components.

Organizational Changes

• Select and Train Community Resource Representatives and Public Trust Officers for All Field Offices

HUD's mission involves both empowering communities and winning the public trust. They are distinct functions and will be performed by different individuals—and in different divisions—within the organization.

—*Community Resource Representatives,* a new group of HUD employees, will facilitate community empowerment by bringing in technical expertise, program knowledge, and knowledge of finance and economic development. Their purpose is to be cooperative, helpful problem solvers.

—*Public Trust Officers* require different skills and a different public stance. Public Trust Officers ensure that federal funds are used appropriately and that HUD customers comply with the law. They must have zero tolerance for waste, fraud, and abuse. HUD will sharply increase the number of staff devoted to this monitoring work by shifting all facilitating work to the Community Resource Representatives and placing all routine processing work in ''back office'' processing centers.

• Downsize HUD Staff From 10,500 to 7,500 by the End of Fiscal Year 2000, Using Skills and Resources Where They Are Needed Most

Once refocused, employees must be retrained. The HUD Training Academy is designing a training program for Public Trust Officers in each program area. It will retrain Community Resource Representatives as well, since they must have broad knowledge of HUD's programs and the field.

Throughout downsizing HUD will retrain and redeploy available staff to minimize workload imbalances. HUD will also try to avoid reductions-in-force (RIFs), with their disproportionate effect on mid-level and mid-career employees. Since April, 1994 a total of 1,190 employees have separated with a buyout from the Department—a 9.4 percent reduction, without one involuntary layoff.

In general, HUD will downsize by consolidating and streamlining operations; contracting out program and support functions that the private sector can perform cost-effectively; eliminating functions that are only marginally effective; and reducing part-time and temporary employees.

• Develop a Road Map for Downsizing for HUD Employees, Including a Buyout Strategy and Options for Career Transitions

HUD will reduce staff levels by maintaining an employment freeze throughout the downsizing period, except for limited hiring targeted at urgently needed skills. The Department will implement early retirement and

buyouts to spur staff reduction and will also offer employee outplacement and other transition services.

HUD has received approval for Voluntary Separation Incentive Payments (VSIP)—also known as buyouts—for employees in targeted locations, titles, series, grades, and program operations. Under this authority, the Department will offer 600–1,000 buyouts to employees to most effectively make progress toward reducing the Salaries and Expenses (S&E) Appropriation to 7,500 Full Time Equivalents (FTEs) by fiscal year 2000. The buyout strategy, provided in Appendix A, will target areas where consolidations and streamlining make staff reduction most necessary. Buyouts will be used as an alternative to involuntary separations that might otherwise be required for downsizing and restructuring.

Alone, HUD's traditionally low attrition rate (less than 2 percent per year) would be insufficient to meet the target staffing number of 7,500 FTEs. Buyouts have been an integral part of HUD's efforts to streamline, downsize, and consolidate operations. These buyouts, as well as early-out authority begun in March 1994 and an employment freeze since October 1994, have substantially reduced staffing levels.

Without buyouts, HUD may have to resort to RIFs as the only other tool available to meet downsizing goals. Yet RIFs would strip the agency of key mid-level employees, disrupt agency operations, and defeat staff diversity gains.

Continued use of buyouts, however, will allow us to target management reforms to specific positions, locations, programs and/or functions. In this way, HUD can focus buyouts on those employee populations and functions which present the greatest need to reduce staff levels. Buyouts are much more cost-effective than RIFs and are more positively viewed by employees prepared to seek new challenges.

*Reform 5: Establish New Performance-Based Systems for HUD Programs, Operations, and Employees*

In this, we are guided by the story about Bobby Knight, who, when he first became the basketball coach at Indiana University, reportedly received a telegram from the Alumni Association: ''Bobby, we're with you all the way,'' it read. ''Win—or tie.'' Alumni Associations are noted for caring about results—sometimes too much.

HUD's management reform plan places a new emphasis on results. It creates new internal and external benchmarks, as well as uniform standards for measuring performance, to increase productivity and accountability across program lines.

These tools increase HUD's ability to mandate compliance from contractors and customers. But by rewarding efforts that go beyond mere compliance—like performance-based grants for contractors or added autonomy for HUD employees—they will make HUD's ability to measure and reward performance and results the true foundation of its reengineering.

To that end we have made one organizational change and seek legislation for many program changes.

Organizational Changes

The Government Performance and Results Act of 1993 (GPRA) essentially requires federal agencies to demonstrate to the public that its tax dollars are being well used. GPRA requires each agency to identify specific measures of its performance, results it will achieve, and timelines for doing so.

In line with these requirements, HUD will create meaningful performance measures that hold its staff and grantees accountable for results—in a quantifiable, measurable way. These measurements will allow HUD staff to compare actual performance against established goals.

By the end of fiscal year 1997, HUD must submit to the Office of Management and Budget a three-year strategic plan and mission statement for complying with GPRA. In that document, HUD will describe its changing direction, including concrete actions. It will then establish performance measures that conform to GPRA goals. In fact, we have already begun creating these measures: at least 20 percent of HUD's major goals and objectives are based on straightforward outcome-oriented performance standards. Outside contractors will be held to the same standards.

Program Changes

• Convert Inflexible and Labor-Intensive Competitive Grant Programs Into Performance-Based Grant Programs

HUD advocates the use of performance-based grant programs wherever feasible as part of its ''reinvention'' to serve its customers more efficiently and effectively. Performance-based grant programs distribute funds by formula, and reward good performance. They also conserve valuable staff time by eliminating time-consuming annual competitions and make funding more predictable so that grantees can plan more strategically. Finally, they give the Department greater flexibility in partnering with local communities to monitor individual projects.

Thus, HUD has proposed legislation that would allow it to convert competitive grants into performance-based formula grants. Affected programs include Tenant Opportunities, Economic Development/Support Services, Public Housing Drug Elimination, and Competitive PHA Capital Funds.

In CPD, HUD has legislation to consolidate homeless assistance services from six disparate programs into one flexible, performance-based formula grant program. Affected homeless programs include Emergency Assistance, Safe Haven Housing, Supportive Housing Program, Shelter Plus Care, Rural Housing, and the Section 8 Mod Rehab Program.

• Deregulate High-Performing PHAs and Smaller PHAs by Mandating Fewer Reporting Requirements

Currently all PHAs must prepare extensive reports, planning documents, and other operational reviews. Monitoring compliance with this stream of paperwork requires inordinate staff time and is burdensome to those PHAs that already perform responsibly and efficiently. HUD will reduce staff oversight burdens and reward effective, high-performing PHAs by reducing the volume of paperwork they are required to submit. Specific changes HUD will make include streamlining planning submissions and performance indicators for small PHAs, and reducing submission requirements for high-performing ones. These steps will substantially reduce the burden on field staff for monitoring and oversight.

• Create a Public Housing Authority Performance Evaluation Board

An independent Performance Evaluation Board will be established to help HUD monitor public housing authority performance. The board will be composed of seven members, all appointed by HUD, with members representing public housing authorities, residents, the real estate industry and local government.

The board will be responsible for making broad recommendations for improving HUD's oversight and monitoring of all facets of public housing authority performance. The board will be evaluating the current Public Housing Management Assessment Program (PHMAP) and suggest future improvements. The board will also study alternative performance evaluation models used in other

industries, including accreditation models that can be applied to public housing. The board will also develop standards for professional competency for PHA employees and review HUD's system to increase on-site physical inspections and independent audits of PHAs.

• Mandate a Judicial Receivership for All Large PHAs on the Troubled List for More Than One Year

Currently, troubled PHAs may remain on HUD's troubled list for years, consuming tremendous staff energy and oversight time in attempts to restructure and salvage these properties. This prevents HUD staff from focusing attention on those properties that may need additional support to prevent their becoming troubled. HUD proposes to place troubled PHAs in judicial receivership if they remain on the troubled list for more than one year. This step gets HUD staff out of the business of managing and restructuring large, troubled PHAs.

• Reduce Excessive Rent Subsidies To Market Levels on Assisted Housing

The Section 8 program, which subsidizes rents, is HUD's largest housing program for low-income people. Established as a means to help low-income people find affordable housing, the program has become fraught with abuse by landlords and developers. FHA insurance of multifamily Section 8 development virtually eliminated risk from the development process. As a result, investors developed ''affordable'' multifamily properties that required rents well above market simply to meet the development cost. Also, significant tax advantages made Section 8 development even more palatable.

Excessive subsidies reduce the incentive for managers to provide the results demanded both by residents and HUD. The FHA insurance on these properties also makes unscrupulous landlords less willing to invest in their properties. The resulting neglect, abandonment, or ''deferred maintenance'' has in many cases led to much lower property values, even as rents remain high.

Roughly 65 percent of HUD's Section 8/FHA loan portfolio is currently subsidizing rents that are substantially above market. In ten years, the annual cost of renewing Section 8 project-based contracts at their current above-market levels will increase to approximately $7 billion, about one-third of HUD's current budget. HUD simply cannot afford to continue this level of spending.

The Department is therefore engaged in an intensive legislative push to lower these rents to market levels (mark-to-market) and restructure the portfolio of FHA-insured loans with Section 8 assistance. Without such actions, HUD risks defaulting on approximately $18 billion of federal guarantees.

HUD has introduced legislation that forces landlords to bring their rents down to supportable levels and restructure their current debt. This will reduce the likelihood of massive foreclosures when landlords' Section 8 contracts expire over the next few years.

*Reform 6: Replace HUD's Top-Down Bureaucracy With a New Customer-Friendly Structure*

Just like a bank or a mortgage broker, HUD realizes that we too have customers. And like a business, we have to think about what makes customers satisfied. The top-down structure that characterizes HUD, from headquarters to the smallest field office, is no longer appropriate.

That structure is based on corporate models of the 1930s and 1940s; yet while many corporations reorganized and restructured a decade ago, HUD has not kept pace.

Where are the models for HUD? One comes from the financial services field. Banks like Citibank and NationsBank have consolidated routine functions into centralized ''back office'' processing centers. They have established ''store-front'' customer offices closer—and more responsive—to their markets.

HUD has learned from their example. HUD's goal is to provide integrated delivery of services and products and to offer a single point of service to all customers. We have identified a number of organizational changes allowing us to do just that.

Organizational Changes

• Create Neighborhood ''Store-Front'' Service Centers and Back Office Processing Centers

The current field structure has state offices with a full staff of program-specific employees. This structure will be replaced by field offices staffed with Community Resource Representatives and Public Trust Officers. While none of the field offices will close, their operations will change dramatically, becoming processing centers and new store-front service centers. In this way HUD will maintain its presence in the communities while allocating resources the way a customer-friendly Department should.

• Offer Single Point of Service to Customers Through Community Resource Representatives

Community Resource Representatives will play the most critical role in the new HUD. Highly trained generalists with expertise in all HUD programs, they will be trained with coursework in housing development, information technology, real estate and economic development, small group dynamics, and related topics. They will be the new generation of urban and community leaders.

These Community Resource Representatives will be the first point of contact for our customers and will be the Department's ''front door,'' helping customers gain access to the whole range of HUD services. They will also help HUD coordinators assess the agency's performance and the impact of programs in local communities.

• Establish a New Management Planning Strategy Based on Customer Feedback and the Secretary's Priorities, Goals, and Objectives

In a top-down management style, goals decided at the top are passed down through the ranks. But where is the avenue for bottom-up goals and ideas? How can customers guide HUD's direction?

HUD's new planning strategy makes that possible. It creates a loop in which Department goals are constantly refined by feedback from customers. While the Secretary sets priorities for achieving the Department's mission, increased attention will go to:

—Creating an integrated customer service plan;
—Internal consultation; and
—External consultation.

The Secretary's Representatives and Community Resource Representatives will be responsible for establishing an effective partnership and working relationship with customers as we implement management plans.

A more detailed description of the management plan process can be found in Appendix B.

• Streamline Headquarters

The Department will undertake a broad range of downsizing and streamlining initiatives that support our major management reforms. We will look for opportunities to consolidate and improve personnel, procurement, information technology, training, and other administrative functions.

For example, FHEO will eliminate one deputy assistant secretary position, reduce its offices from six to four and its divisions from 14 to six. CPD will

combine affordable housing, block grant assistance, and economic development into a new Office of Community and Economic Development. We will transfer the administration of Section 312 loan functions to Ginnie Mae.

The Housing, OGC, PIH, and headquarters transformations will include major organizational changes and consolidations, as well as significant staffing reductions and redeployment to field activities. We will expand the Office of the CFO to include the Office of Budget to better comply with the CFO Act, as well as to improve the strategic planning, performance, and measurement of HUD's operations.

## Reform Plans for Each HUD Business Line

*''We must admit that some programs do not work. We must recognize the right roles for government and the private sector. We must crack down on waste, fraud and abuse wherever and whenever we find it. We must understand that quick-fix solutions do not work—that many of these challenges require long-term structural changes.''*

Secretary Andrew Cuomo

*Overview*

HUD's twin missions are to empower people and communities and restore the public trust. The Department relies on the services and products delivered by each of its business lines to accomplish these missions. To identify how each business line will contribute to the new HUD's success, and highlight where greater strength is needed, the Department reviewed program and management performance in detail at every level during a recent staff retreat. Over the following months, senior managers from headquarters and field offices, acting as change agents, teamed with key staff and program managers to find practical and effective answers to HUD's most pressing problems. These teams developed management reform targets consistent with the Secretary's goals. This was the foundation for HUD's reform agenda. Each business line was asked to define its reform plans according to:

—Need for change
—Reforms (administrative, legislative, or management)
—Benefits of reform.

In addition, each area prepared a staffing plan, as well as the tools needed to implement these reforms (technology and training). These comprehensive reform plans will fundamentally change how HUD operates. When implemented, they will allow HUD to more effectively fulfill its mission. HUD will implement many reforms immediately—others require Congressional action.

This section describes specific management reform plans for each business line. Each plan includes: A summary of key issues, background on the need for change, reforms we will make, benefits gained through reform, and any legislative changes required to make progress.

## Program and Reforms

*Program: Office of Public and Indian Housing Reforms*

- Establish a cross-cutting Real Estate Assessment Center for reviewing physical inspections and financial statements of PIH housing authorities and multifamily projects.
- Create a cross-cutting Section 8 Financial Processing Center for Housing and PIH.
- Establish a Department-wide integrated financial system.
- Create an Enforcement Authority to manage PIH and multifamily troubled portfolios.
- Establish two Troubled Agency Recovery Centers (TARCs).
- Create a special (non-funded) applications center for demolition/disposition, designated housing, and 5(h) homeownership.
- Provide block grant funds for high performers.
- Replace PHMAP for better assessment and propose receivers for troubled management.
- Streamline headquarters and enhance field office responsibilities and authority.
- Privatize functions such as physical inspections, legal and investigative services, technical assistance and HOPE VI construction management.
- Consolidate PIH job skills and economic development programs with similar programs in CPD and Office of Housing into a new Economic Development and Empowerment Service.

*Program: Office of Housing Reforms*

- Establish a cross-cutting Real Estate Assessment Center for reviewing physical inspections and financial statements of PIH housing authorities and multifamily projects.
- Create a cross-cutting Section 8 Financial Processing Center for Housing and PIH, as well as other consolidated processing centers.
- Establish a Department-wide integrated financial system.
- Create an Enforcement Authority to manage PIH and multifamily troubled portfolios.
- Reallocate staff in shift from retail to wholesale service delivery.
- Retrain workforce to meet new challenges.
- Privatize Real Estate Owned functions.
- Develop streamlined contract and procurement process.

*Program: Office of Community Planning and Development Reforms*

- Convert inflexible, labor-intensive competitive grant programs to performance-based grant programs.
- Outsource technical assistance as necessary.
- Monitor grantees failing program compliance through an Enforcement Authority.
- Use advanced mapping software system (Communities 2020) that shows communities the impact of HUD funding and activities in their area.
- Align resource needs and responsibilities within the newly established Economic Development and Empowerment Service.

*Program: Office of Fair Housing and Equal Opportunity Reforms*

- Eliminate the split of enforcement and program compliance functions in headquarters and the field.
- Cross-train field staff.
- Consolidate field oversight functions.
- Restructure leadership functions at headquarters.
- Integrate fair housing principles throughout HUD's other program areas.
- Make use of other program areas' software and new technology to fill gaps in information.

*Program: Office of the Chief Financial Officer Reforms*

- Consolidate program and administrative accounting operations from ten accounting divisions into one accounting center.
- Consolidate HUD budget functions into CFO operations.
- Ensure implementation of Management Integrity Plan.
- Incorporate Resource Estimation and Allocation Process (REAP) into budget process.

## Public and Indian Housing

*''Our purpose is not to criticize government, as so many have, but to renew it. We are as bullish on the future as we are bearish on the current condition of government. We do not minimize the depth of the problem, nor the difficulty of solving it. But, because we have seen so many public institutions, we believe there are solutions.''*

David Osborne and Ted Gaebler, *Reinventing Government*

*Summary*

The Office of Public and Indian Housing (PIH) faces many challenges as it continues to transform public housing across America. In order to successfully meet these challenges, PIH will align its staff resources to address the greatest needs. It will establish centers that house ''back office'' activities, freeing field staff to target their energies on monitoring and providing services to 3,400 Housing Authorities and the 1.4 million families they house.

PIH will establish its own grants center; establish a Department-wide Section 8 Financial Processing Center; participate in the Department-wide Real Estate Assessment Center; establish Troubled Agency Recovery Centers to work with troubled Housing Authorities; and undertake other privatization and streamlining efforts to encourage greater productivity and accountability with local PIH partners and customers.

The Office of Public and Indian Housing has identified six areas where change is most needed. These are:

—Staffing Imbalances

Two forces have created staffing imbalances in PIH field offices: PIH's field restructuring and the Department's ongoing effort to reduce overall staffing to 7,500 employees by fiscal year 2000. The 1994 field restructuring organized field staff into several disciplines to match the functions of property management. This specialization of duties, combined with significant reductions in the number of field staff, has led to many shortages within disciplines, particularly in smaller offices.

—Myriad Programs To Deliver and Monitor

The proliferation of PIH programs in the last decade has created a gap between the need to monitor activities and the ability to do so. Many of the smaller PIH programs (e.g., the Tenant Opportunities Program, the Family Investment Centers, and the Urban Youth Corps Initiative) are highly specialized and require intensive staff effort, making it difficult to give them the attention they need while monitoring overall business line program operations. Also, the high number of PIH programs has greatly increased the demand for staff to oversee the grant award process in response to Notices of Funding Availability (NOFAs).

—Program Transitions

The tremendous variety of public housing options now available requires field office staff to have new skills. They must be familiar with the unique features of gap financing, specialized grant agreements and contracting, and program monitoring—all qualitatively different from traditional public housing.

Additional program changes involve the shift of the Section 8 Moderate Rehabilitation program and many Section 8 New Construction/Substantial Rehabilitation properties to the Section 8 tenant-based program(s), requiring a new consolidated system for processing all certificates.

—Coordinating Delivery of HUD Programs

PIH, like many of the Department's business lines, has difficulty coordinating a plethora of programs, especially in developing and implementing so-called place-based strategies, those strategies that address the specific places where Americans work and live. Because each program is designed independently, it is difficult to uniformly coordinate complex, disparate requirements and procedures.

—Troubled Agencies

Given new, more effective approaches to assessing PHAs, HUD will be in a position to move quickly to identify ''troubled'' PHAs. Because of the complexity and sensitivity experienced by the Department in past work with troubled agencies, we need to make greater efforts to turn around troubled PHAs and prevent them from reaching that stage. This will require more staff attention, which is difficult to allocate given the competing priorities for administering a multitude of programs with limited staff resources.

—Current Program Delivery Process

The roles and responsibilities of both headquarters and field office staff are often poorly differentiated, overlapping, unclear, and fragmented, making coordinated, effective allocation of staffing and resources difficult. Red tape in navigating multiple levels of authorization and reporting is plentiful, reducing effectiveness and flexibility in the field.

To perform its work, field office staff are now grouped into several disciplines that mimic property management functions. These existing groupings include:

—Finance and Budget Specialists
—Facilities Management Specialists
—Public Housing Revitalization Specialists divided into sub-specialists:

- Organization, Management and Personnel (OMP).
- Marketing, Leasing and Management (MLM).
- Community Relations and Involvement (CRI).

While created to address existing needs, these classifications must change to better reflect HUD's reforms and PIH's efforts to streamline its service and delivery process.

Reforms

Three main restructuring areas have been identified to address these problem areas:

- Department-Wide Collaboration Opportunities

—Establishing a Real Estate Assessment Center

- Collaboration With Housing

—Development of a Section 8 Financial Processing Center

- Processing Center Reforms Specific to PIH

—Troubled Agency Recovery Centers
—Special Applications Center
—PIH Grants Center

- Other Reforms

—Headquarters streamlining
—Enhancing the role of field offices
—Enhanced financial accountability

The proposed reforms and expected benefits from reengineering each of these areas are described below.

*Department-Wide Collaboration Opportunities: Establish a Department-Wide Real Estate Assessment Center*

HUD will create a Real Estate Assessment Center to centralize and standardize the way the Department conducts annual PHA assessments. The Center's staff will supervise the assessment process and manage contractor performance, generating an overall score and incorporating performance and compliance concerns for every agent/agency receiving HUD funding. This scoring and ranking will give the Department a comprehensive oversight tool. PIH can thus spend less time with high performing agencies, instead focusing attention and assistance on troubled authorities with lower scores.

How will the Center measure program performance and compliance with federal rules? It will gather relevant data, both qualitative and quantitative, pertaining to each program recipient, including: (a) Physical inspections; (b) independent audits (combining standard fiscal audit requirements with compliance factors defined by HUD); (c) management and performance assessment, as defined by the revised

PHMAP; and (d) evaluations of community and residents' satisfaction.

Physical inspections and audits will be performed by contractors. An expanded, more accurate PHMAP will provide inputs for other performance measures. HUD field staff will supply qualitative management assessment (e.g., recent turnover of critical staff and/or number and complexity of programs) and assessments of grants management. We will obtain views of residents and other community clients from surveys and toll-free calls. The Center will then analyze the information and grade the agent/agency according to the following system:

(1) Pass with distinction or ''high performance.'' The highest grade will give a PHA a possible bonus award of operating funds and allow it to prepare fewer performance reports. The PHA will be highlighted as a ''best practices'' site as a model for other PHAs.

(2) Pass. For PHAs of more than 250 units that score adequately but still have problems (higher than average vacancy rates or one to two poorly managed properties, for instance), field offices will perform targeted monitoring of PHA activities in problem areas and will help them improve annual scores. PHAs of less than 250 units that score in this range will receive the benefits of ''high performance,'' except for the bonus award of operating funds.

(3) Fail. We will assign failing PHAs to a Troubled Agency Recovery Center for targeted intervention.

For PHAs that score above the failing level but have a serious breach of contract between annual assessments, the PIH Assistant Secretary may intervene.

Benefits of Reform

The new Assessment Center provides:

—Comprehensive, annual assessments based on the key components of PHA performance—tenants' quality of life, PHA management, condition of physical stock, and compliance with federal rules.
—Stronger HUD management controls.
—A front-end risk assessment approach for public housing that ranks PHAs, helping management focus limited resources on the neediest PHAs.
—Uniform standards for early detection of fraud, waste, and abuse.

The Assessment Center also oversees the contracts for physical inspections of every agent/agency and for expanded independent audits.

Contracting out functions supplements scarce PIH field staff resources and increases the assessments' objectivity.

Proposed legislation would reward high-performing authorities with incentives through allocation of operating funds. This would encourage a ''management by results'' philosophy and provide an incentive for grantees to improve performance. Proposed legislation would also permit high-performing and non-troubled housing authorities to reduce the number of planning and status reports prepared.

*Collaboration With Housing: Create a Section 8 Financial Processing Center for Housing and PIH*

PIH will establish a unified center for Section 8 payments processing with Housing. It will:

—Review and approve budgets
—Establish payments
—Maintain HUDCAPS
—Process year-end statements
—Calculate renewal needs
—Maintain funding control.

Currently, Housing and PIH have two very distinct methods for processing payments: Housing uses a monthly voucher system based on actual subsidy needs, while PIH uses an annual budget projection, with adjustments made upon receipt of year-end statements. Unifying these processes will benefit both business lines. This will also necessitate improvements to the HUDCAPS system to accommodate processing of all certificates.

Benefits of Reform

The combined Section 8 Financial Management Center will standardize and consolidate Section 8 processing functions—ensuring uniformity, consistency, and accountability in processing Section 8 subsidies and projecting future Section 8 subsidy needs. It will provide a single, effective financial management system, enhancing program accountability. The Center will also centralize and focus staff resources to better identify and respond to training and development needs.

PIH-Specific Reforms: Establish Two Troubled Agency Recovery Centers

To deal with ''failing'' PHAs, PIH will establish two Troubled Agency Recovery Centers (TARCs). Any agent/agency receiving a failing annual assessment score will be referred to a TARC, which will develop and implement an intervention strategy to bring the agent/agency to passing scores. The TARCs will be arms of PIH's existing Office of Troubled Agency Recovery (OTAR), located in headquarters. The 192 staff proposed for this effort will be divided between the two TARCs and program hubs.

PIH will divide staff assigned to the TARCs into several teams. Each team will be assigned one large, troubled PHA. Where appropriate, staff will be temporarily relocated to work directly with residents, PHA staff, and leaders in the community. If PHA problems are not addressed within a one-year time limit, as prescribed by proposed legislation, the TARCs will recommend judicial or administrative takeovers to the Assistant Secretary. To address small, troubled PHAs (failing score with less than 250 units), teams of three staff will be located in program hubs to correct problem areas and prevent further declines in performance. Staff will be assigned several small PHAs in their geographic area and report directly to one of the TARCs.

Individual skills on TARC teams will encompass all aspects of PHA management and operations, including the Section 8 program, financial and management systems, deterioration of physical stock, resident needs, and more. Other field staff may perform some routine functions for troubled authorities under TARC direction.

Benefits of Reform

The TARC model more clearly defines and separates the roles of intervention/recovery and program operation/management. Intervention functions will be performed by specialized personnel, all under the authority of a TARC Director. This staff will be largely assigned to the TARCs, with a contingent distributed to the program hubs. TARCs will enable field staff to focus on community priorities and enhancing performance of passing PHAs, rather than on problem PHAs. The proposal encourages effective, targeted program delivery: specialized staff for large or small PHA recovery efforts and field staff dedicated to preventing decline in good PHA performance.

Consolidating intervention activities will also generate more expertise as teams learn to swiftly identify and correct problem areas and share solutions with staff.

Finally, TARCs will remove intensive, specialized work from field offices, allowing staff to focus on monitoring and improving the bulk of agents/agencies which are neither high performing nor troubled.

*PIH-Specific Reforms: Create a Public and Indian Housing Grants Center*

PIH will establish a center to perform competitive grants selection, allocation and reservation requirements, as well as Public Housing Operating Fund management, as follows:

—*Competitive Grants.* The Grants Center will be responsible for all aspects of competitive grants management, including preparation and publication of NOFAs, grants application and review process, and notice of grant award.

—*Funds Management.* The Grants Center will also be responsible for the Public Housing Operating Fund and Capital Fund. For the Public Housing Operating Fund, the Center will provide a range of services, including calculation of subsidy allocations, review and approval of PHA budgets, and processing of year-end statements. For the Capital Fund, the Center will review and approve a five-year plan, reserve funds, notify Congress and the PHA, and prepare grant agreements.

*PIH-Specific Reforms: Create a Special Applications Center*

PIH will consolidate special (non-funded) applications and processes for its unique programs in a single Special Applications Center. Those applications are: demolition/disposition, designated housing, and 5(h) homeownership. PIH will assign up to 15 staff to this center.

Benefits of Reform

Consolidating these discrete functions will maximize staff effectiveness and increase program accountability. Consolidation will also eliminate current duplication of efforts in the field, for example: demolition/disposition processing, now conducted at four locations, and processing designated housing and 5(h) applications, now performed at all existing field offices. The center will standardize application processing and use staff specifically trained in evaluating and processing these applications. Centralizing these functions will relieve regular field staff of specialized processing burdens.

*Other PIH-Specific Reforms: Streamline Headquarters/Enhance Field Office Responsibilities/Enhance Financial Accountability*

PIH will consolidate the field structure to better use existing staff and to take advantage of cross-program efficiencies. The total number of PIH offices will decrease by ten, as the existing 52 offices evolve into 26 program hubs and 17 program centers. An additional 76 staff will move into the field as a result of headquarters reorganization.

Field offices are the first point of contact for PHAs that pass the annual assessment; they will work toward community goals using HUD and other federal resources. Field staff will assess risk and monitor programs for large PHAs with passing scores, all capital fund programs (except for HOPE VI, in some cases), and various competitive grants. Annual personnel assessments will be tied to the annual performance of PHAs for which they are assigned.

PIH will also abandon the functional discipline specialization resulting from earlier field restructuring. Instead, program hub and program center needs will be better met by consolidating the OMP, MLM, CRI and planning and evaluation functions into a generalist position.

PIH will also take steps to strengthen financial accountability and controls, including integrating PIH financial systems with the rest of the agency, working closely with the new Department-wide consolidated budget function within the CFO's office, and bringing on board new financial personnel such as a chief financial officer.

Benefits of Reform

By creating central processing centers and enhancing field offices—thus separating intervention/recovery functions from routine activities—PIH strengthens field office staff. Field staff can concentrate on helping and monitoring non-troubled PHAs, flagging potential or emerging problems. This structure better meets community needs by focusing staff expertise on troubled agencies (both large and small) where necessary, community service coordination, and program monitoring. This reform also links agency performance to individual personnel assessments.

Proposed Legislation

Internal reforms are under way throughout the agency. But to effect real change within the PIH business line, Congressional action is needed to facilitate lasting reform. Proposed authorizing legislation will support the reorganization plan by:

—Replacing the PHMAP system, making it a component of the annual assessment conducted by the Assessment Center;

—Making poor physical condition of properties automatic grounds for designation of an agent/agency as ''troubled,'' providing a framework for the Assessment Center to contract out physical inspections and giving new input into the revised assessment system;

—Creating a formula for distributing operating funds and providing incentives to housing authorities with good management, rewarding high-performing housing authorities;

—Waiving four of the nine planning requirements for non-troubled small housing authorities and high-performing large authorities, enabling these entities to submit one interim statement during the five-year comprehensive plan;

—Supporting TARCs by giving agents/agencies a one-year deadline to correct their troubled status or be placed in judicial receivership (for larger authorities) or administrative receivership (for smaller authorities); and

—Consolidating programs, such as incorporating the Public Housing Drug Elimination Program into the proposed formula award of operating subsidies.

Proposed Legislation—Public Housing Management Reform Act of 1997

1. Deregulate Small PHAs and High-Performing PHAs

Streamlining planning submissions and performance indicators for small PHAs, HUD will substantially reduce burden on field staff for compliance monitoring and oversight. High-performing PHAs will also have lighter submission requirements.

2. Merge Section 8 Certificate and Voucher Programs

Consolidation allows streamlining of HUD regulations and oversight of a single program.

3. Consolidate Tenant Opportunities Program (TOP) and Economic Development/Supportive Services Program

Combination allows HUD to conduct one competition, rather than two, under a single set of regulations.

4. Streamline PHA Submissions to HUD and Provide for Timely and Limited HUD Review Process

Submission of a single streamlined comprehensive plan with annual modifications requires substantially less HUD staff time for review and approval. Lighter submission requirements for high performers will also reduce staff workload.

5. Create New Performance Evaluation Board to Recommend System Enhancements for Public Housing Authority Oversight

Creation of board to enhance performance measurement system and develop system for site inspections; use of audit reports will create a more efficient, more effective system for oversight of public housing authorities.

6. Allocate Public Housing Drug Elimination Funds by Performance-based Formula

Conversion to formula will eliminate the need to conduct staff-intensive annual competition.

7. Allocate Capital Funds for Small PHAs by Formula Instead of Competition

Formula allocation of capital resources to small PHAs will eliminate the need to conduct annual competition.

8. Automatic Judicial Receivership for Persistently Troubled Large PHAs.

Gets HUD staff out of the business of managing restructuring of large troubled PHAs.

9. Privatize Oversight of HOPE VI Construction Process

Contracting with private real estate firms will ease staffing burdens and improve oversight of HOPE VI projects.

Summary of Public and Indian Housing Problems, Reforms and Benefits

Problems

- Staffing is imbalanced, geographically and by specialization.
- Tracking and assessing of projects is not uniform.
- Delivering and monitoring too many programs amplifies staffing problems.
- ♦ Changes in statutes, regulations, and delivery process are not communicated well throughout the field offices and headquarters.
- Coordination of program delivery and targeting of HUD staffing resources is insufficient.
- Resource-intensive management of troubled PHAs prevents staff from nipping PHA problems in the bud.

Reforms

- Establish a cross-cutting Real Estate Assessment Center for reviewing physical inspections and financial statements of PIH housing authorities and FHA multifamily projects.
- Create a cross-cutting Section 8 Financial Processing Center for Housing and PIH.
- Establish a Department-wide integrated financial system.
- Create an Enforcement Center to management PHA and FHA troubled portfolios.
- Establish two Troubled Agency Recovery Centers (TARCs).
- Create a special applications center for demolition/disposition, designated housing, and 5(h) homeownership.
- Provide block grant funds for high performers.
- Revise PHMAP for better assessment and propose receivers for troubled management.
- Streamline headquarters and enhance field office responsibilities.
- Privatize functions such as physical inspections, legal and investigative services, technical assistance, HOPE VI construction management.
- Consolidate PIH job skills and economic development programs with similar programs in CPD and FHA into a new Economic Development and Empowerment Service.

Benefits

- Annual assessments are standardized, providing better access to critical information and ensuring fairness and objectivity across projects.
- Uniformity, consistency and accountability are ensured for processing Section 8 subsidies and projecting future subsidy needs.
- Roles of intervention/recovery, program operation, and management are more clearly defined through TARCs.
- Through consolidation, field staff are relieved of intensive processing burdens.
- Program staff can concentrate efforts on core functions by realigning staff responsibilities and certain PIH programs.

**Housing**

*''If you change your systems, organizations, and people, but leave the work processes alone, or change your systems, organizations, and processes, but not the way your people work, think, and feel, you will sentence your organization to ongoing conflict. To reach your destination, you must bring all five levels into alignment.*

David Osborne and Peter Plastrik, *Banishing Bureaucracy*

*Summary*

The Office of Housing faces specific problems: poor alignment of staff and resources, lack of integrated computer systems, and high risks in multifamily portfolios.

Addressing these problems will involve establishing additional consolidated processing centers, such as a Section 8 Financial Processing Center; turning over troubled properties to a centralized enforcement authority; privatizing discrete functions, such as Real Estate Owned properties; creating an asset management system; and aggressively managing portfolio risk.

*The Need for Change*

For more than 60 years, the Federal Housing Administration (FHA) has helped make capital available to support rental housing, single family homeownership, and community health care facilities. To continue this role for America's communities in the 21st Century, the Office of Housing has developed a reform plan that blends the efficiency and flexibility of the private sector with FHA's continuing commitment to serve the public.

The areas to address in order to accomplish our goals:

—Accurately assessing the financial or physical condition of multifamily properties;
—Increasing accountability of internal managers, property owners, and stakeholders;
—Relieving asset managers of non-asset manager work;
—Changing service delivery from retail to wholesale;
—Verifying income in the Section 8 program;
—Linking the reform plan to personnel performance standards;
—Making sure the right skills are available to match needs; and
—Managing staff reductions.

*Proposed Legislation—Housing 2020 Multifamily Management Reform Act of 1997*

1. FHA Mark-to-Market Reforms

Repositioning/rehabilitating the 500,000 over-subsidized and insured properties will lighten FHA's exposure to default and reduce staff workload because remaining properties will be in better condition and better regulated through market discipline.

2. Strengthen FHA Multifamily Enforcement

Creation of new Department-wide Enforcement Authority. Streamlining and privatizing the process for FHA pursuit of bad owners reduces staff burden for enforcement actions, and thus reduces burden on staff for overseeing/resolving troubled properties.

3. Reform Bankruptcy Laws To Prevent FHA Multifamily Property Owners From Evading Enforcement

Preventing owners from using bankruptcy laws as refuge from enforcement action makes it easier for FHA to pursue bad owners, thus reducing burden on staff and improving the caliber of the housing stock.

4. Extend Permanently FHA Note Sale Authority

Note sales reduce staff drain that results from having to service troubled properties and notes.

5. Consolidate Multiple Multifamily Insurance Authorities into a Single General Authority

Single, flexible insurance authority will replace more than 10 specialized authorities. Will enhance user access to multifamily insurance products and streamline management systems.

*Overview to Subdivisions*

Each of the Office of Housing's subdivisions contributed reorganization strategies to the HUD-wide reengineering effort. The following sections describe the individual strategies of Multifamily Housing, Single Family Housing, and the Comptroller. In addition, Housing headquarters is also being reorganized.

**Multifamily Housing**

*The Need for Change*

During the 1980s, the Office of Housing was significantly affected by the decline in real estate markets. In the early 1990s, it owned almost 2,400 multifamily mortgages, with an outstanding balance of over $7 billion. The substantial inventory of HUD-held mortgages was costing taxpayers hundreds of millions of dollars and compromising HUD's ability to perform its other principal functions, specifically production of new, affordable housing and effective management of the insured portfolio. Strategies are needed to set the future course for multifamily housing. Necessary reforms are identified in the following areas:

Asset Development

Asset development services (intake, processing, underwriting approval, construction inspection, and final closing) are currently delivered in 51 field offices. However, this service delivery structure has several major weaknesses:

—Services are poorly integrated and delivery is fragmented;
—Processing is slow and inconsistent: the industry standard for processing is 30–45 days, far less than HUD's current average, and answers to similar client questions vary from field office to field office;
—Mortgagees are not held accountable for performing due diligence, putting HUD at greater risk;
—Quality control is weak, with 51 different underwriting authorities making decisions—leading to increased risk and inconsistencies;
—Confusion and clouded accountability result from burdensome reporting relationships; and
—Existing staff skill mix doesn't offer consistent, uniform, quality service across all offices.

Asset Management

Asset Management oversees and manages assets including 31,000 projects with approximately 5,400 ''troubled'' properties. It also administers nearly 30 different housing programs to ensure that low and moderate income residents have safe, affordable housing, to safeguard tax dollars, and to protect the FHA insurance fund. Asset managers monitor and service many properties, with an average workload of 55 projects per person. Typical tasks include property inspections, financial analysis, and reviewing grant and other applications.

The current delivery structure has four major weaknesses:

—Asset managers are overburdened with non-asset manager responsibilities, are poorly trained, and lack the experience to handle a broad range of troubled and non-troubled projects;
—Owners may exploit bankruptcy laws to avoid compliance;
—No efficient system exists to identify, assess, and respond to troubled properties; and
—Section 8 subsidy administration is inefficient and burdensome.

*Reforms*

Asset Development

The following reforms will be made:

—Multifamily Housing will consolidate 51 field offices into 17 program centers. These hubs will be supported by staff in program centers; staff will be on detail to various locations, moving across hubs and program centers. Shifting assignments allows staff to adapt resources and focus as needed to respond to changing markets;
—Implement a fast-track development process;
—Delegate certain underwriting responsibilities to mortgagees or contractors;
—Establish a quality assurance unit.

Benefits of Reform

Multifamily Housing will see these results from reform:

—Uniform, consistent processing;
—Sharply reduced processing time;
—Less underwriting risk and inconsistency by having fewer people make underwriting decisions;
—More responsibility and accountability for mortgagees;
—Clear lines of authority and responsibility, more accountability;
—Shared use of skilled staff across hubs;
—Flexibility to meet rapid market changes; and
—Fewer material weaknesses in managing and controlling staff resources.

Asset Management

We will usher in change and correct flaws within Asset Management with the following reforms:

—Create a Department-wide Enforcement Authority to handle the troubled properties of PIH and Office of Housing.
—Create a Department-wide Real Estate Assessment Center for PIH and Office of Housing.
—Housing will consolidate key functions in processing centers. Contractors and/or skilled HUD staff will perform such core functions as property disposition, insurance conversion, and Section 8 voucher processing. To align work with available skills, anticipating further staff reductions by the year 2000, Housing hubs will be located in 17 areas to best serve customers and support the 34 program centers;
—Increase consistency and cohesiveness in processing control;
—Reduce asset managers' non-troubled property workload to appropriate levels;
—Provide direct lines for staff reporting;
—Improve service quality and balance of staff skills;
—Expand the Insurance Conversion Servicing Center to handle co-insured portfolio refinancing; and
—Coordinate autonomous field offices.

Benefits of Reform

Multifamily Housing will reap the following benefits from acting on these reforms:

—Reduce non-core functions performed by asset managers;
—Provide timely, accurate financial and physical condition status of multifamily properties through the Assessment Center; and
—Dedicate resources to deal with all troubled properties in the Recovery and Enforcement Authority.

**Single Family Housing**

*The Need for Change*

Single Family Housing currently performs loan production, asset management, and property disposition with 2,080 employees in 81 locations across the country, in addition to 190 headquarters staff. One critical goal is to rid the agency of the administrative burden of a substantial inventory of

HUD-held mortgages. However, this goal, among others, is more difficult to achieve with the existing service delivery structure. Among its flaws:

—Delays and problems in insurance endorsement processing;
—Information systems that do not help staff effectively monitor compliance;
—Poorly controlled and monitored property disposition; and
—Staff reductions that prevent consistent delivery of quality services.

*Reforms*

Single Family Housing will consolidate all Single Family operations into three Homeownership Centers (HOCs). This reform will generate economies of scale, encourage better use of technology, and allow us to dedicate staff solely to customer assistance. To jump start the transition, we will either streamline or outsource Real Estate Owned (REO) activities and sell nearly all assigned notes.

When fully implemented, HOCs will perform functions which are now performed in individual field offices. Specifically, they will be staffed to perform the following core functions:

—Insurance endorsements
—Operational post-endorsement technical reviews
—Fee panel oversight
—Underwriting
—Servicing advice and guidance to mortgagees
—Contractor oversight/management
—Loss mitigation
—REO sales (carryover inventory)
—Marketing and outreach
—Quality control post-endorsement technical reviews
—Lender monitoring
—Sanctions
—Audits/investigations

*Benefits of Reform*

This consolidation and streamlining will achieve several objectives:

—HOCs will provide faster, more uniform, efficient service to clients, lenders, and borrowers;
—Risk assessment, loss mitigation, and quality assurance will all improve;
—Loan production will increase in targeted populations with better marketing and outreach;
—HOCs will cut the processing time for insurance endorsements from two weeks to one day;
—Service to lenders will improve through automated systems; and
—A state-of-the-art financial system will vastly improve HUD's underwriting and loss mitigation efforts.

**Housing Comptroller: Asset Recovery Centers**

*The Need for Change*

Currently, Title I asset recovery operations are performed by 108 employees in three Asset Recovery Centers. The existing delivery structure has two major weaknesses:

—Recovery processes are cumbersome and are poorly integrated with premium collection and claims examination; and
—Resource investment is not justified by the level of assets recovered.

*Reforms*

HUD will work with the Department of Treasury to transfer appropriate asset recovery activities to Treasury.

*Benefits of Reform*

By transferring asset recovery activities to the Treasury, HUD will reduce resources committed to this non-core function and can refocus staff on higher priority tasks. Treasury can better ensure timely and accurate debt collection, significantly increasing the amount of unpaid debts collected.

**Housing Headquarters**

*The Need for Change*

Housing headquarters develops policy and budgets, conducts Congressional and industry relations, plans and implements new products and services, and oversees lender compliance, among other tasks. It also provides field support. Three major weaknesses in headquarters' current operations have been identified:

—Field support is inadequate;
—Information systems are outdated and disparate, preventing staff from comparing data and flagging problems; and
—Procurement is cumbersome.

*Reforms*

Headquarters will streamline operations to better focus on such HUD-wide responsibilities as policy and budget development, troubleshooting, industry relations, and those that support field office service delivery. Its field support will focus on personnel, procurement/contracting, information technology, training and auditing, and technical assistance. Headquarters will also:

—Limit its role in compliance and execution to providing data resources, administrative support, and auditing;
—Design a 360 degree review system of headquarters by field staff;
—Accelerate reconciliation of Generally Accepted Accounting Principles with Federal Credit Reform accounting systems;
—Treat field office staff as customers, allowing field staff to devote their full attention to making programs work; and

Housing will also make full use of the new financial systems being developed in the Department-wide integrated financial system.

Benefits of Reform

Headquarters will create positive change by:

—Using less staff in targeted support of core field office functions;
—Helping field staff better serve customers;
—Streamlining program development, monitoring, enforcement, risk management and budgeting, through better information systems; and
—Expediting policy and program implementation through the Department's overall reform of procurement and contracting.

*Summary of Housing Problems, Reforms and Benefits*

Problems

- Limited accountability of internal managers, property owners, and stakeholders.
- Poor allocation of staff and resources.
- Lack of training asset managers.
- Little integration of computer systems that produce consistent data.
- Transition from retail to wholesale service delivery requires significant shifts in resources.
- Risk mitigation in multifamily portfolio is increasingly necessary.
- Insufficient balance between community needs and program objectives.

Reforms

- The Department will establish a cross-cutting Real Estate Assessment Center for reviewing physical inspections and financial statements of PIH housing authorities and FHA multifamily projects.

♦ The Department will create a cross-cutting Section 8 Financial Processing Center for Housing and PIH.
♦ The Department will create an enforcement center to manage troubled portfolios.
♦ Establish a Department-wide integrated financial system.
♦ Reallocate staff in shift from retail to wholesale.
♦ Retrain workforce to meet new challenges.
♦ Privatize Real Estate Owned functions.

- Develop streamlined contract and procurement process.

Benefits

- Fewer processing problems and delays in loan origination.
- Faster, more uniform service to clients, lenders, and borrowers.
- Improved underwriting and loss mitigation efforts.
- Increase in unpaid debt collection.
- Greater claims processing capacity.
- Ability to meet targeted staff reductions by FY 2000.
- Faster policy and program implementation through reduced procurement time.
- Greater accessibility to financial information for budgeting, reporting, risk management, and enforcement.
- Better control over resources and outcomes.

**Office of Community Planning and Development**

*''National social problems will be solved the same place they are manifested—at the grass-roots level. National governments will be standard setters, supporters of local development, suppliers of resources, and facilitators or guardians of economic and political activity . . .''*

Rosabeth Moss Kanter, *World Class*

*Summary*

Problems encountered by Community Planning and Development (CPD) include limited resources for managing competitive grants; limited staff for on-site monitoring; fragmented approaches to solving community problems; and an inability to completely track and respond to market trends.

CPD is in the process of correcting these weaknesses by converting competitive grants into performance-based grants; outsourcing discrete functions; using advanced mapping software to aid community planning; aligning resources within a new Economic Development and Empowerment Service; and downsizing its headquarters staff.

CPD has had many successes, including: increasing the number of homeless families and individuals helped to reach self-sufficiency from 20,000 to nearly 290,000; creating 1.4 million jobs; and serving nearly 1.7 million people through CDBG and Home programs. Yet CPD also sees the need to improve its performance. CPD has identified several areas where reforms are necessary. Key problem areas include:

—Resources are limited and on-site monitoring is inadequate

Limited staff and budgets prevent adequate on-site monitoring and oversight of high-risk activities.

—Grant award staff are overloaded

CPD approves over 1,300 competitive grants a year, but staff reductions of 23% since 1992 have prevented adequate monitoring of thousands of competitive grants.

—Insufficient resources to monitor the rapid increase in development projects

CPD has insufficient staff resources, both in number and expertise, to adequately monitor hundreds of economic development projects approved in the past several years.

—Solid data are unavailable

Timely, complete, and accurate data to measure program outputs are often lacking.

*Reforms*

Elements of new and continuing management reforms are:

—Combining planning and application reports into a single plan;
—Using comprehensive plan software that allows applications to display proposed projects as maps and submit data electronically;
—Upgrading information systems to the Communities 2020 system;
—Implementing the Integrated Disbursement and Information System, an automated reporting system showing ''real time'' achievements;
—Introducing the Grants Management System, which includes an annual comparative review of all entitlement grantees, showing the full spectrum—from ''best practices'' to high-risk projects and cities in need of technical assistance and monitoring.

CPD is assessing the following structural changes:

—Combining the Office of Block Grant Assistance and the Office of Affordable Housing into an Office of Community Development.
—The Office of Economic Development will be consolidated into the Economic Development and Empowerment Service. It will retain the economic development function and handle the brownfields program, if authorized and given to CPD. This combination will enhance efficiency and give communities the help they need to address problems holistically and will bring needed economic development expertise to CPD's largest program.
—Regulatory oversight and policy functions of the Office of Environment and Energy will move to the Office of General Counsel; other environmental functions will be contracted out.
—The Office of Executive Services and Office of Administration will be retained with reduced staff.
—The Office of Management would ensure that all offices have adequate technology to do their jobs.

Administration of the remaining 312 loan functions will be transferred to the Government National Mortgage Association.

Additional considerations:

—Assess how CPD can support the central coordination of the EZ/EC program for both existing and proposed zones and communities;
—Consider contracting out monitoring functions, if homeless assistance legislation is not approved to reduce competitive grants volume; and
—Develop an automated system to manage competitive grants, integrated with IDIS and the Grants Management System, and provide a seamless process for recipients. The system should identify high-risk recipients and projects for targeted monitoring.

Benefits of Reform

Benefits of enacting these reforms include:

—Serving CPD's mission by enabling communities to apply a more comprehensive approach to solving myriad urban problems;
—Reducing unnecessary paperwork;
—Helping citizens play a more meaningful role in the community development process by making proposed plans clearer and more accessible;
—Improving the speed, ease, and accuracy of reporting achievements and drawing down funds; and
—Improving monitoring and oversight by targeting scarce resources on high-risk projects and publicizing high-performing projects and cities.

*Proposed Legislation*

Proposed legislation has been or will be introduced to create a homeless assistance performance fund and streamline the HOME program.

Proposed legislation will provide a single performance fund distributed by formula for all homeless programs to: (1) Reduce staff time on grant approvals, since funds will be distributed by formula; (2) Approach homeless problems locally and comprehensively; (3) Ensure role of non-profits and other community organizations in shaping

and operating programs to help homeless persons reach self-sufficiency to the extent possible; and (4) Give cities responsibility for monitoring homeless problems in future block grants.

*Proposed Legislation—Homeless Assistance and Management Reform Act*

Convert 6 Separate Homeless Programs to Performance-based Formula Grant Program.

Permanent consolidation will eliminate the need for HUD to administer staff-intensive, multiple competitions for funds. The new program will allow communities through local planning boards to shape comprehensive ''continuum of care'' systems. This plan would lie within the overall consolidated plan for that community.

*Summary of CPD Problems, Reforms and Benefits*

Problems

- Limited resources for managing competitive grant programs
- Limited staff for on-site monitoring
- Information is not complete or timely
- Community problems are not addressed holistically
- Limited ability to handle increased number of economic development projects

Reforms

- Convert inflexible and labor-intensive competitive grant programs to performance-based grant programs
- Outsource technical assistance as necessary
- Monitor grantees failing program compliance through an Enforcement Authority
- Use advanced mapping software system (Communities 2020) that shows communities the impact of HUD funding and activities in their area
- Align resource needs and responsibilities within the newly established Economic Development and Empowerment Service

Benefits

- Communities can apply a more comprehensive approach to solving urban problems
- Unnecessary paperwork is eliminated
- Citizens will play a more meaningful role in the community development process
- Speed, ease, and accuracy in reporting
- Improved project oversight

**Office of Fair Housing and Equal Opportunity**

''*Reengineering is about Reinvention—not improvement, enhancement, or modification. Radical redesign means getting to the root of things: not making superficial changes or fiddling with what is already in place.*''

Michael Hammer and James Champy, *Reinventing the Corporation*

*Summary*

Fair Housing and Equal Opportunity faces challenges in fragmented responsibilities and lack of accountability; duplication of field oversight functions; inefficient separation of staff resources between enforcement and program/compliance; and inadequate use of technology.

To overcome these problems, FHEO will eliminate the separation between enforcement and program/compliance functions; cross-train staff; consolidate field oversight and policy functions; integrate fair housing principles throughout HUD's other program areas; and make greater use of other areas' technology.

*The Need for Change*

Since its establishment in 1969, FHEO has evolved according to changing statutes and program needs. This sporadic approach to building a business line has created a number of service delivery problems. The areas that most need to change are:

—Lack of clear responsibility and accountability for policy development, planning, program evaluation, control, and performance standards and measurement;
—48 local offices report to multiple sets of field oversight offices in headquarters;
—A split in field management between enforcement and program/compliance, resulting in a ''two FHEO'' phenomenon;
—A structure top-heavy with supervisors;
—Inadequate integration of fair housing policies into other HUD program areas;
—Redundant, inefficient paperwork and processes; and
—Outdated technology and data tracking systems.

Organizational inefficiency is most noticeable in field operations, where two separate FHEO staffs oversee investigations and programs. In headquarters, this organizational structure has resulted in six distinct offices and 14 divisions, directed by three Deputy Assistant Secretaries.

*Reforms*

—Eliminate the current division of civil rights enforcement and program responsibilities in headquarters and field offices so that FHEO operates more uniformly and cohesively.

A new position, Deputy Assistant Secretary for Enforcement and Programs, will combine the functions currently performed by the Deputy Assistant Secretary for Enforcement and Investigations and Deputy Assistant Secretary for Programs and Compliance, and will report to the newly created position of General Deputy Assistant Secretary, the chief operating official.

—New Field Organization

Field offices will be organized into ten program hub offices and program center offices. Each program hub office will provide civil rights complaint assessment/control services for its entire area. Each program hub's director will be accountable to the General Deputy Assistant Secretary for all FHEO functions, and will be the point of contact on all major policy and program issues regarding HUD's civil rights responsibilities in that area.

Program center offices will process complaints, review programs and compliance, and investigate complaints, among other tasks. Program center directors will work with other program directors to carry out community-based customer service.

Program center offices will have new, consolidated responsibility for all FHEO civil rights enforcement and program activity functions—investigations, compliance, and programs. Directors at the local level will deliver effective enforcement, compliance, and program results, and will assign staff to highest priorities.

—Use Staff More Efficiently

FHEO Civil Rights Analysts will investigate violations of civil rights laws, as well as perform program/compliance work, while directors balance workloads among different requirements and priorities with the full complement of staff available. Use of BPR reforms, including enhanced technology to increase efficiency, will be expanded.

—Consolidate field Oversight

Field oversight functions will be consolidated into one office under the General Deputy Assistant Secretary. The number of offices reporting to headquarters will drop from 48 to 10. The General Deputy Assistant Secretary will also direct FHEO's consolidated policy and program evaluation functions, gaining a better understanding of current issues and problems, and providing clearer guidance to field offices on litigation and policy initiatives.

—Streamline Headquarters Functions

- Headquarters will be streamlined and its functional areas reconfigured to reflect those in the field;
- One Deputy Assistant Secretary will be responsible for both enforcement and program functions; and
- All field oversight, policy formulation, program evaluation, and the development of program standards will be consolidated to eliminate duplication and to establish clear lines of accountability and responsibility.

—Integrate Fair Housing Into HUD's Other Program Areas

FHEO will continue to focus on:

- Technical assistance on civil rights requirements for recipients of HUD funds;
- Section 202/811 application reviews;
- Supporting fair housing on-site monitoring;
- Voluntary programs with housing industry groups; and
- Fair housing planning.

HUD will focus on mainstreaming fair housing government-wide and throughout the Department through:

—Streamline Existing Front-End Reviews

Other program areas will expand their current application procedures to include routine front-end reviews now performed by FHEO for the: Comprehensive Improvement Assistance Program; Family Self-Sufficiency; Comprehensive Grant Program; Multifamily Development Programs; Section 108 Loan Guarantees; and Annual Action Plans.

—Standard Information Collection

PIH and CPD will expand their standard data collection (e.g., IDIS) to include indicators of fair housing compliance by grantees.

—Integrate Fair Housing Into the Proposed Assessment Centers

FHEO will support a process to ensure that fair housing compliance is included in assessing public housing authorities.

—Section 3

Section 3 can be moved from FHEO to the Office of Small and Disadvantaged Business Utilization, to take advantage of greater expertise in economic development and procurement.

—Training of Community Resource Representatives

New Community Resource Representatives will be trained in fair housing laws, issues surrounding Section 8 recipients, and other thorny fair housing issues.

Benefits of Reform

—A unified FHEO
—More flexible staff who can handle both enforcement and program/compliance functions
—More effective field offices due to clearer guidance on policy initiatives
—Less duplication and paperwork
—More effective elimination and prevention of discriminatory practices
—More effective use of technology and other program areas' data.

*Summary of FHEO Problems, Reforms and Benefits*

Problems

—Fragmented responsibilities
—Lack of accountability
—Duplication of field oversight functions
—Confusing, complex lines of reporting
—Lack of clear communication
—Fragmented approach to compliance and enforcement
—Poor use of technology

Reforms

—Eliminate the split of enforcement and program/compliance functions in headquarters and the field
—Cross-train field staff
—Consolidate field oversight functions
—Restructure leadership functions at headquarters
—Integrate fair housing principles throughout HUD's other program areas
—Make use of other program areas' software and new technology to fill gaps in information

Benefits

—A unified FHEO
—More flexible staff who can handle both enforcement and program/compliance functions
—More effective field offices due to clearer guidance on litigation and policy initiatives
—Less duplication and paperwork
—More effective elimination and prevention of discriminatory practices
—Streamlined headquarters functions

**Office of the Chief Financial Officer**

*''The major complaint about organizations is that they have become more complex than is necessary.''*
Tom Peters, *In Search of Excellence*

*Summary*

The Chief Financial Officer is unable to provide cost-effective, efficient accounting services within the current decentralized structure and lacks the ability to link budgeting, strategic planning, and financial management, thwarting clear accountability.

To remedy these problems, the Office of the CFO will consolidate accounting operations from ten centers to one accounting center and will absorb budgeting operations into strategic planning and financial management operations within the office.

*The Need for Change*

—Consolidating Program and Accounting Operations

Performing accounting services in multiple locations with large numbers of staff is no longer cost effective. Better financial management and information systems make it possible to reduce staffing, streamline operations, and strengthen management controls.

—Consolidating Budget and CFO Operations

Budgeting, strategic planning, and financial management are critical to HUD's success. But these functions are currently independent, with little or no coordination. This has led to criticism from the GAO, IG, and NAPA. Effective management means we must weave budgeting, strategic planning, and financial management oversight together. This requires matching workload planning (estimates and allocations) through the use of GPRA performance measures, HUD's strategic plan, and a new management plan process.

—Implementing New HUD Management Integrity Plan

Program managers must be responsible for their programs' financial management. They must be held accountable for results and rewarded for excellent results. Managers will be provided with clear, reasonable expectations and the resources necessary to meet them. The CFO must be a partner with and advocate for program managers.

—Linking Budget, Performance Measures, and Program Delivery

GPRA recognizes the natural links between budget operations and program outputs and outcomes. At HUD, budget operations, program performance, and program delivery are fragmented and disjointed.

—Estimating Resources and Making Budget Allocations

The GAO and HUD's own Inspector General have criticized the Department for its weak and fragmented ability to estimate its resource needs and make budget allocations.

—Financial Systems Integration

Since 1989, HUD has reported under FMFIA that it does not have an efficient, effective, and integrated financial management system that can be relied on to provide timely, accurate, and complete financial information to management. Also, in February 1997 the GAO reported that HUD's financial management systems were ''poorly integrated, ineffective, and generally unreliable.'' In his confirmation hearing, Secretary Cuomo stated his top priority is to put HUD's management systems in order and to restore effective management and financial accountability at HUD.

*Reforms*

—The Office of the CFO will consolidate its programs and administrative accounting operations from ten field accounting divisions into one accounting center; all accounting operations will be performed at this center.

—Consolidate headquarters budget operations into the Office of the CFO to ensure budgeting is integrated with financial management oversight.

—Accountability is the cornerstone of HUD's new business culture. Effective systems of management controls are critical to the long-term success of the Department's mission, and outstanding performance in this area should be rewarded. Employees will be held accountable for carrying out responsibilities related to financial credibility. The new focus will be on positive reinforcement, rather than negative sanctions. For instance, managers who demonstrate outstanding performance or who contribute to HUD's financial management will be considered for Secretarial awards and recognition. Also, the CFO will partner with programs as the principal driver of financial management to ensure that programs achieve intended business results.

—Risk management is a major component of financial management. If it is to be integrated in the day-to-day operations of HUD's programs, risk management must be as simple as possible. It must focus on prevention, not process, and must balance risk and resources with reasonable controls and verification procedures. A new Office of Risk Management will be established to play a key role in changing managers' perspective of the review/audit function.

—Linking budget, performance measures, and program delivery will enable the Department to meet the requirements of the CFO Act, ensure the integration of financial systems and controls, and consolidate monitoring of all performance measures in the same organization. The CFO will lead the Department's GPRA implementation efforts.

—The newly merged budget office will implement a proposed Resource Estimation and Allocation Process (REAP) that will link resources to results as required by GPRA. The fiscal year 1999 call for budget estimates and legislative proposals will incorporate this new process.

—The Department will develop and implement an integrated financial management system that is accurate, reliable, and timely.

*Summary of Chief Financial Officer Problems, Reforms and Benefits*

Problems

- Program and administrative accounting services not sufficiently cost-effective
- Lack of coordinated budget operations, strategic planning, and financial management
- Lack of resources estimation and allocation capability
- Lack of accountability and internal controls
- Inaccurate, unreliable, and tardy financial management systems

Reforms

- Consolidate program and administrative accounting operations from ten accounting divisions to one accounting center
- Consolidate Budget and CFO Operations
- Implement new Management Integrity Plan
- Incorporate Resource Estimation and Allocation Process (REAP) into budget

Benefits

- Stronger internal management controls
- Easier access to information through the single accounting center saves time and increases reliability
- Greater financial management accountability since budgetary and financial responsibilities are centralized
- Improved resource estimation and allocation capability

Benefits of Reform

Staff cost savings and financial management improvements will accrue from these consolidations and streamlining efforts. Specific benefits include:

—Stronger internal management controls;

—Better access to consistent, uniform financial data;

—Linking budget, performance measures, and program delivery will enable the Department to meet the requirements of the CFO Act;

—Greater accountability through linked budget and financial management responsibilities;

—Improved resource estimation and allocation capability;

—Less duplication of resources and effort; and

—Clear lines of authority and responsibility.

**Office of Administration**

*''Mobilizing an organization to adapt its behaviors in order to thrive in new business environments is critical. Without such change, any company today would falter.''*

Ronald A. Heifetz and Donald L. Laurie, *Harvard Business Review*

*Summary*

In many ways, the Office of Administration faces a dual challenge. It must help the Department make sweeping changes, while at the same time reforming itself, streamlining and becoming as efficient as possible.

Implementing such massive change in a Department of this size impels the Office of Administration to be as flexible and performance-oriented as possible. Each of these areas will help: Human Resources, Information Technology, Training, Management and Planning, Administrative Services, and Procurement and Contracts. Supporting business lines with new staffing plans, technology assessments, training programs, and equipment planning are just a few of the many services the Office of Administration will offer.

The Departmental organization described in this plan will help the Office of Administration identify what services it can provide to meet the needs of its customers within HUD. While an earlier reorganization of the Office of Administration achieved significant staffing reductions, greater efficiency and the ability to better target our services will provide further opportunities for downsizing.

Once implemented, the HUD 2020 reform plan is designed to achieve support staff levels comparable to private sector personnel efficiencies. As part of the reform effort, the Office of Administration is examining and streamlining its own core functions and processes.

In the near future, the Office of Administration will:

• Manage client requests using our Automated Client Request System, state-of-the-art technology;

• Increase our use of satellite technology to train employees;

• Execute personnel actions through the Internet and HUD's own Intranet site, HUDweb;

• Create flexible workspaces, technology, and furniture in ''Workplaces of the Future'' to enhance teamwork and dynamic work environments; and

• Use visual and voice technology to manage remote staff.

The Office of Administration's highest priority is to support organizational changes that most impact HUD's ability to fulfill its mission. Changes within the Office of Administration will parallel those in business lines, as we identify the needs of a restructured HUD.

Creating a leaner, smarter, and more effective Department is the primary focus of the Office of Administration. The Office of Administration will plan, develop, and implement a realistic strategy for helping executives and managers carry out approved management reforms. Individual offices within the Office of Administration will provide the following assistance:

*Human Resources* will provide labor-management relations strategy; organization change and personnel processing services; staffing and classification support; support in performance management planning; and buyout, outplacement, and employee career transition assistance.

*Information Technology* will identify technology needs; realign technology investments and services; and provide contractor and staff support for major reforms.

*Training Academy* will carry the message of management reforms to employers and customers; assess current workforce skills against new requirements and adapt training programs; provide employee career counseling; and adapt current university partnerships to address new program and technical training needs (including procurement, contractor management, financial analysis, internal controls, and community and economic development).

*Specific Training* will also be conducted for Community Resource Representatives and Public Trust Officers. Because the Community Resource Representatives will epitomize the facilitation function in the new HUD, a special national recruitment open to new hires and existing HUD employees will be launched.

*University Training* will make certain that employees in both of these new categories are fully equipped with the latest knowledge and skills to carry out their important functions. HUD will arrange for high quality, university-based training emphasizing a broad overview of HUD programs, community development skills for the Community Resource Representatives and program monitoring for the Public Trust Officers. The university training will be interspersed with regular HUD work to enrich both experiences. The Department is prepared to make a major commitment to this training which is central to achieving the aims of the Management Reform Plan.

*Management and Planning* will support organizations as they develop and follow plans for reassessing their business processes; and provide attendant organizational development, team building, and culture change support.

*Administrative Services* will help client organizations develop plans to address space, equipment, and other administrative requirements; and realign current administrative resource plans with long-term management reforms.

*Procurement and Contracts* will work with affected organizations to assess procurement and contracting requirements; develop specific procurement plans; and support expedited assistance.

The Office of Administration will assign interdisciplinary teams, comprising experts in all administrative functions, from both headquarters and the field, to each area undergoing change to work through implementation details and ensure global logistical and policy coordination.

Procurement and Contracting will work with affected organizations to assess procurement and contracting requirements, develop specific procurement plans, and support expedited assistance. At the same time, it will work with NAPA to analyze and reconstruct a more efficient procurement process, as executed by both the Office of Procurement and Contracts and by the business lines.

ADMINISTRATIVE SUPPORT STRATEGY

[Office of Administration]

| Reforms | Human resources | Information technology | Training |
|---|---|---|---|
| #1 Reorganize by function rather than program ''cylinders. | Identify space, equipment, and other administrative needs; develop and coordinate plans to speed organizational changes. | Develop process redesign and cultural change strategies. | Support plans for outsourcing and contracting; assist in A76 process; help expedite procurements. Assist as needed. |
| #2 Modernize and integrate HUD's outdated financial management systems with an efficient, state-of-the-art system. | Assist as needed ..... | Provide contract support and assistance. | Advise project leaders and managers. |
| #3 Create an Enforcement Authority with one objective: to restore the public trust. | Provide same support services as #1. | Provide contract support, advice, and assistance. | Provide same support services as #1. |
| #4 Refocus and retrain HUD's workforce to carry out our revitalized mission. | Assist as needed ..... | Provide same support services as #1. | Assist as needed. |
| #5 Establish new performance-based systems for HUD programs, operations, and employees. | Assist as needed ..... | Advise on culture changes and team building strategies. | Assist as needed. |
| #6 Replace HUD's top-down bureaucracy with a new customer-friendly structure. | Consider alternative office and worker locations, consistent with management reforms. | Develop new organization development strategies to improve customer service. | Assist as needed. |

ADMINISTRATIVE SUPPORT STRATEGY

[Office of Administration]

| Reforms | Administrative services | Management and planning | Procurement and contracting |
|---|---|---|---|
| #1 Reorganize by function rather than program ''cylinders''. | Suggest most efficient strategies for organization changes, position management and classification, union negotiations, and staffing. | Adapt current technology plan to accommodate reforms. Support technology and information system changes. | Assess workforce skills and training needs; develop new training' revise existing training. |
| #2 Modernize and integrate HUD's outdated financial management systems with an efficient, state-of-the-art system. | Assist as needed ..... | Adjust technology budgets to accommodate project costs; help project manager and contractor; provide guidance on architecture and other requirements. | Develop training for new systems. |
| #3 Create an Enforcement Authority with one objective: to restore the public trust. | Provide same support services As #1. | Provide same support services #1 | Provide same support services as #1. |
| #4 Refocus and retrain HUD's workforce to carry out our revitalized mission. | Help managers develop new positions, qualification requirements and internal/external recruitment. | Ensure that the new workforce uses best available technology applications to achieve reforms. | Plan, design and conduct new training program, including university partnerships. |
| #5 Establish new performance-based systems for HUD programs, operations, and employees. | Development of new performance structures and incentives for improved results. | Develop information systems to support changes. | Incorporate performance concepts into management and other training programs. |
| #6 Replace HUD's top-down bureaucracy with a new customer-friendly structure. | Work with Deputy Secretary and principal staff on options to reconfigure HQ-field structure, operations and human resources. | Help staff improve use of information resources. | Help organizations develop customer service training programs. |

**Appendix A: Buyout Plan**

An integral part of the HUD 2020 Management Reform Plan is streamlining and consolidating major functions and downsizing the overall workforce funded by the Salaries and Expenses Appropriation from approximately 10,500 to 7,500 FTEs by the end of fiscal year 2000. To achieve this employment level, the Department will need to reduce on-board staff by approximately 3,000 employees over a four-year period.

As we proceed with the implementation of the HUD Management Reform Plan, 600 to 1,000 buyouts will allow the Department to aggressively streamline and consolidate functions while limiting the need for involuntary employee separation that might otherwise be required. To accomplish this objective, specific program operations will be targeted for reductions, downsizing and consolidations. An effective, targeted buyout strategy will minimize disruptions to program areas and ease the career transition process for impacted employees. The following program operations will be targeted in priority order for staff reductions through the buyout program.

Buyout applications will be accepted in July 1997. Employees will be notified of approval or denial of a buyout opportunity from August-September, 1997. Employees will be allowed to separate with a buyout beginning in late August through the end of the fiscal year (September 30, 1997). The Secretary reserves the right to stop buyout offers at any point in the process.

—Priority Group 1

Office of Housing (headquarters and field operations): Single Family, Multifamily, Federal Housing Administration Comptroller, and Operations.

—Priority Group 2

Administrative functions, headquarters and field, in all program offices and in the Office of Administration, except the Office of Information Technology.

—Priority Group 3

Office of Chief Financial Officer (headquarters and field operations).

—Priority Group 4

Office of Public and Indian Housing (headquarters and field operations).

—Priority Group 5

Headquarters and field operations of the Office of General Counsel, Office of Fair Housing and Equal Opportunity, and the Office of Community Planning and Development.

—Priority Group 6

Other operations funded by the Salaries and Expenses Appropriation to include Office of Policy Development and Research, Office of Congressional and Intergovernmental Relations, Government National Mortgage Association, Office of Public Affairs, Office of Lead Hazard Control, Office of Departmental Equal Employment Opportunity and all offices under the Office of the Secretary.

*Buyout Policy and Process*

Most employees who meet the legal requirements of Section 663 of the Treasury, Postal Service and General Government Appropriations Act, 1997 (Pub. L. 104–208) are eligible to apply. However, employees must be serving under an appointment without time limitations and have been continuously employed for at least three years with HUD in order to be eligible for a buyout. Additionally, the following categories of employees will not be eligible to apply:

—An employee who, during the previous 24 months, received a recruiting or relocation bonus, or within 12 months of the separation date received a retention allowance;

—Employees relocated to other positions/offices (under HUD's relocation programs) where relocation costs were incurred and the buyout offer falls within one year of the effective date of the relocation. Exceptions can be granted if the employee reimburses HUD for all relocation costs;

—An employee already approved for a voluntary separation incentive payment under HUD's previous buyout program under the Federal Workforce Restructuring Act of 1994 who is completing an additional period of service for a delayed separation;

—An employee in receipt of a specific notice of involuntary separation for misconduct or unacceptable performance;

—An employee who previously received any buyout payment by the federal government and has not repaid such payment;

—A re-employed annuitant;

—An employee who is or would be eligible for disability retirement;

—An employee with statutory reemployment rights of transfer to another organization;

—All employees serving under Schedule C, non-career Senior Executive Service, or Presidential appointments;

—All employees in the Office of Information Technology paid from the Working Capital Fund;

—All employees in the Office of Inspector General; and

—All employees in the Office of Federal Housing Enterprise Oversight.

The amount of each buyout will be calculated using the severance pay formula.

Employees approved for a buyout will be paid an amount equal to their severance pay or $25,000, whichever is less.

Employees interested in the buyout will be allowed to submit a written (pre-designed) application. Applications will be ranked in priority order according to the organization described above. Employees will be informed when and where applications may be obtained as early as possible following formal buyout announcement. The Office of Human Resources will be responsible for the management and operation of the buyout program.

*Categories for Job Elimination*

Based on the preceding targeted program operations and geographical locations, the following occupations and grade levels are targeted for buyouts in the following priority order according to program functions:

—Priority #1—Office of Housing—Headquarters and Field

Eligibility for buyouts in this group apply to all employees in all titles, series and grades in headquarters and in all field locations in all Housing operations. Examples of occupational series and titles in this organization include, but are not limited to:

GS–301 Systems Analyst, Program Advisor, Program Specialist, Management Information Specialist, Field Manager
GS–303 Staff Assistant, Clerk Typing, Program Assistant, Disbursements Assistant, Loan Assistant, Title Assistant/Clerk
GS–305 Mail Clerk, File Clerk
GS–318 Secretary (Typing)
GS–322 Clerk—Typist
GS–325 Office Enforcement Clerk
GS–326 Office Automation Clerk
GS–343 Management Analysis, Program Analysis
GS–501 Financial Operations Analyst, Accounting Advisor, Financial Review Compliance Specialist, Loan Servicing Specialist, Deputy Comptroller
GS–505 Housing Comptroller
GS–510 Staff Accountant, System Accountant, Operating Accountant
GS–525 Accounting Technician
GS–806 Materials Engineer
GS–808 Architect
GS–810 Structural Engineer
GS–828 Construction Analyst
GS–830 Mechanical Engineer
GS–990 Claims Examiner
GS–0110 Financial Economist
GS–1101 Default Loan Specialist, Debt Servicing Rep., Debt Management Specialist, Loan Technician, Single and Multifamily Housing Spec., Real Estate Owned Spec., Asset Manager, Mortg. Spec. Underwriter
GS–1160 Financial Analyst
GS–1165 Loan Specialist, Loan Assistant
GS–1170 Single Family and Multifamily Asset Manager, Realty Spec.
GS–1171 Appraiser
GS–1510 Actuary
GS–1531 Statistical Assistant

—Priority #2—Administrative Functions—Headquarters and Field

Eligibility for buyouts in this group apply to all employees at all grade levels in operations, management and administrative support functions in all Program Offices, and in all offices in the Office of Administration (except the HUD Training Academy and the Office of Procurement and Contracts). Occupational groups generally fall in the GS–200, 300 and 500 job classification series. Examples of occupational titles and series include, but are not limited to:

GS–201 Personnel Management Specialist
GS–203 Personnel Assistant/Clerk
GS–212 Personnel Staffing Specialist
GS–221 Position Classification Specialist
GS–230 Employee Relations Specialist
GS–235 Employee Development and Training
GS–301 Management and Organizational Development Specialist, Personnel Pay Specialist, Personnel Services Specialist, Program Management Specialist, Administrative Staff Assistant
GS—303 Personnel Pay Technician/Assistant, Personnel Support Services Assistant, Records Clerk
GS–318 Secretary-Typing
GS–322 Clerk-Typist
GS–326 Office Automation Assistant
GS–332 Computer Operator
GS–334 Computer Specialist
GS–335 Computer Clerk/Assistant
GS–340 Program Management Specialist
GS–341 Administrative Officer
GS–342 Support Services Specialist
GS–343 Management Analyst
GS–344 Management Assistant
GS–391 Telecommunications Specialist
GS–501 Financial Analyst, Accounting Advisor
GS–503 Comptroller Assistant
GS–505 Comptroller
GS–510 Accountant, Systems Accountant
GS–511 Auditor
GS–525 Accounting Technician
GS–540 Voucher Examiner
GS–544 Time and Leave Technician
GS–560 Budget Analyst
GS–561 Budget Assistant
GS–570 Financial Institution Examiner
GS–1160 Financial Analyst

—Priority #3—Office of the Chief Financial Officer—Headquarters and Field

Eligibility for buyouts in this group apply to all employees in all titles, series, and grades in all locations in headquarters and the field. Examples of occupational series and titles in this organization include, but are not limited to:

GS–303 Accounting Clerk
GS–318 Secretary
GS–326 Office Automation Clerk
GS–343 Management Analyst
GS–501 Financial Operations Analyst
GS–503 Comptroller Assistant
GS–510 Accounting Officer, Operating Accountant
GS–511 Internal Auditor
GS–525 Accounting Technician
GS–540 Voucher Examiner
GS–570 Accountant
GS–1160 Financial Analyst

—Priority #4—Public and Indian Housing—Headquarters and Field

Eligibility for buyouts in this group apply to all employees in all titles, series and grades in all geographical locations in headquarters and the field. Examples of occupational series and titles in this organization include, but are not limited to:

GS–301 Special Asst., Mgmt. Info. Spec., Prog. Support Spec.
GS–303 Staff Asst., Program Asst.
GS–304 Information Receptionist
GS–318 Secretary
GS–322 Clerk-Typist
GS–326 Office Automation Clerk
GS–335 Computer Clerk
GS–343 Program Analyst, Management Anal.
GS–344 Management Asst.
GS–503 Financial Asst.
GS–801 General Engineer
GS–807 Landscape Architect
GS–808 Architect
GS–810 Civil Engineer
GS–828 Construction Analyst
GS–1082 Writer-Editor
GS–1101 Desk Ofcr., Housing Spec., Revitalization Spec., Native American Program Spec.
GS–1160 Financial Analyst
GS–1163 Insurance Examiner
GS–1171 Appraiser
GS–1173 Housing Management Spec.
GS–1530 Statistician

—Priority #5—Other Priority Program Operations—Headquarters and Field

Eligibility for buyouts in this group apply to all employees in all titles, series and grades in all geographical locations in headquarters and the field based on the employee's retirement service computation date (SCD). Examples of occupational series and titles in this category include, but are not limited to:

GS–246 Industrial Relations Specialist
GS–301 Spec. Asst., CPD Rep., Field Mgmt. Ofcr.
GS–303 Program Asst., Staff Asst.
GS–305 Mail Clerk
GS–806 Materials Engineer
GS–810 Structural Engineer
GS–830 Mechanical Engineer
GS–905 Attorney Advisor
GS–950 Paralegal Specialist
GS–963 Legal Instruments Examiner
GS–986 Legal Technician
GS–0020 Community Planner
GS–0101 Social Science Analysts
GS–1101 Grants, Spec., Housing Spec., Asset Mgr., Rehab. Spec.
GS–1165 Loan Specialist
GS–1170 Realty Specialist
GS–1173 Housing Mgmt. Specialist
GS–1801 Compliance Specialist

—Priority #6—Other Program Operations

Eligibility for buyouts in this group apply to all employees in all titles, series and grades in all geographical locations in headquarters and the field based on the employee's retirement service computation date (SCD). Examples of occupational series and titles in this category include, but are not limited to:

GS–110 Economist

GS–260 EEO Specialist
GS–318 Secretary
GS–322 Clerk-typist
GS–326 Office Automation Clerk
GS–335 Computer Clerk/Asst.
GS–343 Management Analyst
GS–344 Management Assistant
GS–360 EEO Specialist
GS–361 EEO Assistant
GS–0028 Environmental Protect. Specialist
GS–1035 Public Affairs Specialist
GS–1102 Contracting Specialist
GS–1301 Environmental Policy Specialist

## Appendix B: Annual Management Planning Strategy

''Some governments are not only trying to prevent problems, they are working to anticipate the future—to give themselves radar. This is extremely difficult in today's short-term political environment. But it is also extremely important, given the pace of change* * *''

David Osborne and Ted Gaebler, *Reinventing Government*

HUD's new management planning strategy transforms the goals of HUD's Management Reform Plan into action. The HUD management plan process will directly link the Government Performance Results Act requirements for a strategic plan, program goals and objectives, performance measures, budget formulation, and the management process. This process will express how HUD measures performance, measuring outputs and outcomes of programs and operations. To guarantee that this plan meets local needs, HUD field staff will provide essential feedback. The new process will have the following steps:

1. Setting Priorities

The Secretary establishes major priorities for achieving the Department's mission.

2. Defining Goals and Objectives

The Deputy Secretary oversees the Assistant Secretaries, who develop specific goals and objectives to support the Secretary's priorities. The Chief Financial Officer is the process manager. In consultation with the Director of Budget and Assistant to the Deputy Secretary for Field Management, the Deputy Secretary coordinates the development of the Management Plan goals, objectives, performance measures, customer service standards, and management control plans. Policy and program guidance is then issued to the field to guide the development of preliminary field office-based Management Plans.

3. Scheduling Workload

The Management Plan will include preliminary workload schedules for various consolidated operations, including grant administration, physical and financial assessments, enforcement and recovery, rental assistance, funding, etc.

4. Creating Integrated Customer Service Plans

The Secretary's Representatives and Coordinators will plan and coordinate the development of proposed Field Office Management Plans, including integrated customer service plans. Program managers will work with the Secretary's Representatives and Coordinators on the integrated customer service plans and will also ensure that the plans respond to program workload requirements.

5. Internal Consultation

Secretary's Representatives and Coordinators will conduct sessions with the program managers to review the overall Management Plan priorities, goals, objectives, and policy guidelines.

6. External Consultation

The Secretary's Representatives and Coordinators and program managers will consult with HUD's major customers and partners (state, county, city, housing authorities, finance agencies, etc.).

7. Finalizing Management Plans

Consolidated and office-wide Management Plan proposals will be submitted by the Secretary's Representatives to the Deputy Secretary for review. The CFO will coordinate review, revision, and resource allocation requirements with the appropriate Assistant Secretary, budget, and field management officials. The Deputy Secretary will approve final Management Plans for implementation.

8. Implementing Management Plans

Management Plans will be carried out through an integrated service delivery process. The Secretary's Representatives, Coordinators, and Community Resource Representatives will be responsible for:

—Establishing an effective partnership and set of working relationships with customers;
—Helping state and local governments and related industry and nonprofit organizations make better use of HUD programs and services;
—Achieving housing and community and economic development goals efficiently and effectively.

Program managers and their staffs will:

—Carry out program administration (e.g., grants management, monitoring, technical assistance, policy interpretations and related oversight activities); and
—Provide technical support and assistance to the Secretary's Representatives and Coordinators.

9. Headquarters responsibilities

Headquarters program offices will be responsible for effectively and efficiently managing field programs and staff. They will ensure that program administration goals and objectives do not conflict with responsibilities of the Secretary's Representatives and Coordinators.

10. Performance appraisals

HUD is working with OPM to design a state-of-the-art performance-based appraisal system.

11. Information systems and reporting

The CFO develops and maintains an accurate and reliable Management Plan information system, accessible to headquarters and field managers. Monthly reports will be presented to the Management Committee with an executive summary of progress and problems in achieving major Management Plan goals. The Assistant to the Deputy Secretary for Field Management will develop a major component of this report, including quantitative and qualitative assessments of customer service results.

12. Annual process evaluation

The CFO, in coordination with principal staff, will conduct an annual evaluation of the Management Plan process in headquarters and the field. The CFO will report on major findings and recommendations for improvement to the Deputy Secretary. Improvement actions will be incorporated into the next draft.

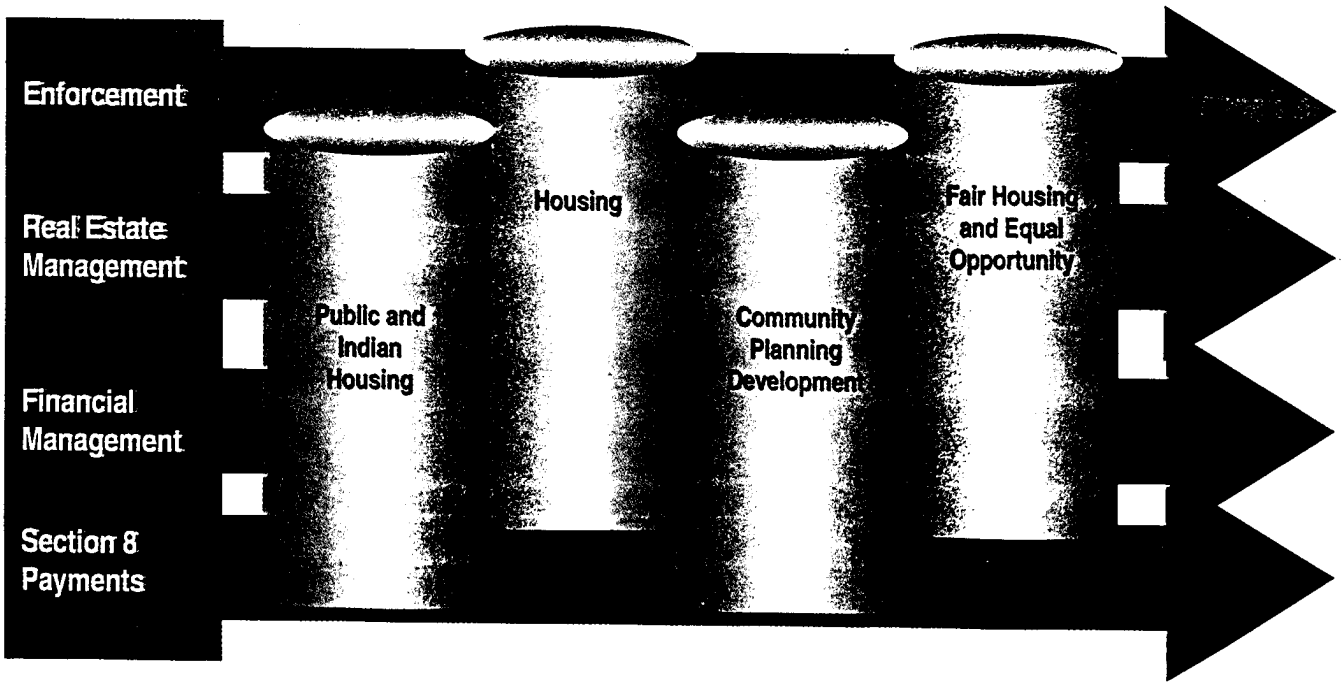
## Appendix C: HUD Salaries and Expenses and Full-Time Equivalents

HUD SALARIES AND EXPENSES AND FULL-TIME EQUIVALENTS

| Programs | Actual 1996 | Budget 1998 | Target 2000 |
|---|---|---|---|
| Housing | 5,157 | 4,599 | 2,900 |
| Public and Indian Housing | 1,355 | 1,325 | 1,165 |
| Ginnie Mae | 63 | 72 | 72 |
| Community Planning Development | 844 | 820 | 770 |
| Policy Development and Research | 109 | 107 | 105 |
| Fair Housing and Equal Opportunity | 663 | 635 | 591 |
| Dept. Equal Employment Opportunity | 18 | 19 | 19 |
| Department Management | 105 | 105 | 105 |
| Lead Hazard Control | 24 | 24 | 24 |
| Chief Financial Officer | 381 | 300 | 220 |
| General Counsel | 498 | 465 | 369 |
| Administration | 988 | 965 | 590 |
| Field Direction and Operational Support (Community Resource Representatives) | 337 | 525 | 570 |
| Total | 10,542 | 9,961 | 7,500 |

BILLING CODE 4210–32–P

APPENDIX D: HUD 2020 STRUCTURAL REFORM




BILLING CODE 4210–32–C

## Appendix E: Consolidated Centers

The following is a list of consolidated centers.

Department-wide
- Real Estate Assessment Center
- Enforcement Authority
- Economic Development and Empowerment Service
- Section 8 Financial Center for PIH and Housing

Office of Public and Indian Housing
- Troubled Agency Recovery Centers (TARCs)—(2)
- Special Applications Center
- Public and Indian Housing Grants Center

Office of Housing
- Single Family Homeownership Centers (HOCs)—(3)
- Multifamily Centers—(17)
- Title I Asset Recovery Center
- Multifamily Property Disposition Processing Center

Office of the Chief Financial Officer
- Accounting Center

Office of Administration
- Administrative Service Centers (ASC)—(3)
- Employee Service Center (ESC)

## Appendix F: HUD Salary and Staff Reductions

HUD SALARIES AND EXPENSES: PROJECTED STAFF REDUCTION DURING DOWNSIZING PERIOD

| | 1997 | 1998 | 1999 | 2000 | Total |
|---|---|---|---|---|---|
| Total Reduction Required | 1,025 | 965 | 910 | 215 | 3,115 |
| Staff On-Board, Start of FY | 10,615 | 9,590 | 8,625 | 7,715 | |
| How Reduction Can Be Achieved: | | | | | |
| Normal Attrition | 325 | 290 | 260 | 215 | 1,090 |
| Buyouts | 600 | 400 | ..... | ..... | 1,000 |
| Early outs | 50 | 75 | 100 | ..... | 225 |
| Outplacements | 50 | 200 | 300 | ..... | 550 |
| Temporaries | ..... | ..... | 250 | ..... | 250 |
| Reductions-In-Force* | ..... | ..... | ..... | ..... | ..... |
| Total Potential | 1,025 | 965 | 910 | 215 | 3,115 |
| Staff Reduction: Staff on Board, End of FY | 9,590 | 8,625 | 7,715 | 7,500 | |

*Process to be planned in 1998 for use as necessary to meet targeted levels.

Assumptions:

Normal attrition: A 3.0% rate is used for normal attrition of on-board employees, traditionally less than 4%. (Note: this equates to an annual 1.5% FTE rate). This assumes a full hiring freeze until reduction goals are met.

*Buyouts:* Buyout projections are based on recent buyout experience and are consistent with our buyout plan under the current authority, which expires December 31, 1997.

*Early outs:* Early outs beyond FY 1997 assume continued OPM approval.

*Outplacements:* Special programs will be used to support placing employees outside the agency. These efforts can be intensified as necessary to achieve targeted reductions.

*Separation of Temporaries:* Although temporary employees will continue to support the transition, they can be separated as appropriate.

*Reductions-in-Force:* This process may be necessary in some areas to meet required staffing levels.

Dated: August 5, 1997.

**Andrew Cuomo,**

*Secretary.*

[FR Doc. 97–21081 Filed 8–11–97; 8:45 am]

BILLING CODE 4210–32–P