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Report to the Ranking Minority Member, Subcommittee on Housing and Transportation, Committee on Banking, Housing, and Urban Affairs, U.S. Senate

July 2001

SINGLE-FAMILY HOUSING

Better Strategic Human Capital Management Needed at HUD's Homeownership Centers

GAO

Accountability * Integrity * Reliability

GAO-01-590

Contents

Figures

Abbreviations

FHA	Federal Housing Administration
HUD	Department of Housing and Urban Development
NAPA	National Academy of Public Administration

G A O

Accountability * Integrity * Reliability

United States General Accounting Office
Washington, DC 20548

July 26, 2001

The Honorable Wayne Allard
Ranking Minority Member, Subcommittee
on Housing and Transportation
Committee on Banking, Housing,
and Urban Affairs
United States Senate

Dear Senator Allard:

The Department of Housing and Urban Development (HUD), through its Federal Housing Administration (FHA), annually insures billions of dollars in home mortgage loans made by private lenders. FHA's mission is to expand homeownership in the United States by assuming 100 percent of the risk for the mortgages it insures. Compared with private mortgage insurers, FHA is more likely to insure loans for low-income and minority borrowers. To carry out its mission, FHA relies on private lenders to determine borrowers' creditworthiness and to make and fund loans. FHA also uses private appraisers to assess the value of the properties that it insures. Finally, FHA relies on contractors to help assess lenders' compliance with its requirements, monitor the performance of appraisers, and manage and sell the properties it acquires through foreclosure. Without careful oversight of these lenders, appraisers, and contractors, FHA is vulnerable to mismanagement and fraud.

In 1997, HUD issued its 2020 Management Reform Plan, which provided for downsizing and reforming the Department, including its single-family mortgage insurance program. As part of its 2020 reforms, HUD consolidated the single-family program's field activities—such as processing mortgage insurance and overseeing lenders—at four new regional homeownership centers and specified resources for the centers. Although HUD has substantially streamlined FHA's single-family mortgage insurance programs, human capital issues remain a concern. For this and other reasons, we reported in January 2001 that HUD's single-family mortgage insurance programs were a high-risk area for the Department. At that time, we also reported that strategic human capital management was a high-risk area across the federal government.

In response to your request that we review HUD's implementation of the homeownership center concept under the 2020 plan, we assessed HUD's efforts to resolve human capital issues related to staffing, training, and oversight of contractors at the homeownership centers.[1] Specifically, as agreed with your office, we reviewed (1) the deployment of center staff, (2) the training provided to center staff, and (3) the centers' monitoring of contractors. In addition, we examined HUD's use of planning tools to target its homeownership center resources effectively.

To address these issues, we developed and analyzed workload statistics and contracting data for fiscal years 1999 and 2000—the first 2 years that the centers were in operation. We also interviewed officials at HUD headquarters and visited all four of the Department's homeownership centers located in Atlanta, Georgia; Denver, Colorado; Philadelphia, Pennsylvania; and Santa Ana, California. Appendix I provides additional details on our scope and methodology.

Results in Brief

Central to HUD's 2020 reform plan was the consolidation of single-family program activities and staff from HUD's 81 field offices to 4 homeownership centers to provide more consistent and efficient program service. Since their formation, the four centers have provided more uniform service to customers and reduced the processing time for insurance endorsements from several weeks to a few days. While the centers have improved program service, staffing imbalances have hampered center operations. Although HUD envisioned leaving about a third of the centers' staff in field offices, nearly half of the centers' staff remain in 71 field offices across the country. In addition, the deployment of staff across the centers is not consistent with their workload. As a result, all four centers have difficulty supervising and making effective use of the staff in field offices, and the Philadelphia center, which has the largest workload, has fewer staff than two other centers. These imbalances exist because HUD assigned staff to the centers without performing a systematic workload analysis and did not force staff to relocate from the field to the centers. Furthermore, as the centers have struggled to use their staff effectively, new initiatives, such as the Department's fraud prevention efforts, have increased the centers' workload. To make more effective use of their staff, the centers would like to eventually move many field office positions to the centers as field staff leave or retire.

[1]We will be issuing a second report later this year on the single-family information systems used by the homeownership centers.

Planning training for the centers has been inadequate because HUD has not developed a standardized training curriculum for center staff. For example, although HUD has provided basic auditing training to the staff who perform on-site monitoring reviews of lenders, it has not established a curriculum that identifies the other types of training these staff should receive. A training curriculum could help direct the centers' requests for training and ensure that training funds are used to provide training that develops or sharpens needed skills. In addition, the centers have had difficulty using their training funds effectively because HUD provided them late in the fiscal year and then pulled back some funds before they could be used. For example, of the $366,000 in single-family training funds approved by HUD for fiscal year 1999, about $145,500 was spent. HUD did not make the final training fund allocation for the fiscal year until March 1999, and in July 1999, it withdrew the funds for the remainder of the fiscal year, giving the centers only about 4 months to provide training.

With increases in their responsibilities and a shortage of staff to handle the work, the centers have expanded their use of contractors. However, the centers' ability to monitor contractors has not kept pace with their growing reliance on them. Whereas the 2020 plan specifically mentioned only that the centers would use contractors to manage and sell the properties that HUD acquired through foreclosure, contractors currently perform many of the centers' mortgage insurance endorsement activities, including evaluating the underwriting quality of loans insured by FHA. In fiscal year 2000, HUD obligated about $390 million for contractors handling single-family program activities. Center staff primarily monitor the contractors; however, our past work on HUD's monitoring of center contractors—including contractors responsible for overseeing loan quality and maintenance and sales of HUD-owned properties—has indicated that oversight is a significant problem. For example, in May 2000, we reported that HUD's assessments of the performance of its management and marketing contractors did not follow a consistent format and did not always determine the level of risk posed by contractors' performance, making it difficult to compare and track the performance of contractors over time.[2] HUD has recently begun to consider risk in its monitoring of management and marketing contractors, but it is too soon to assess the impact this will have on the Department's oversight of these contractors.

[2] *Single-Family Housing: Stronger Measures Needed to Encourage Better Performance by Management and Marketing Contractors* (GAO/RCED-00-117, May 12, 2000).

To target departmental resources more effectively, HUD has begun to use its strategic plan, a new resource estimation and allocation model, and other planning tools. HUD's strategic plan has identified goals and objectives for the single-family program and the homeownership centers. In addition, a contractor has used a model developed by the National Academy of Public Administration to analyze the centers' workload and staffing requirements. HUD is currently evaluating the contractor's conclusion that the centers' total workforce could be reduced by 31 staff—a conclusion with which single-family housing officials disagree. HUD has also recognized the need for a succession plan that will help it replace the large percentage of the single-family workforce that is expected to retire in the near future. Another planning tool that HUD has begun to use at higher levels but not yet at the centers is our recently published human capital self-assessment checklist, which contains a framework for linking an agency's human capital management to its strategic and business planning. These tools can assist HUD in determining staffing needs at the centers and allocating center staff resources, as well as in recruiting and retaining the staff needed to meet the centers' current and future workforce requirements.

Given the multibillion-dollar insurance risk that FHA assumes annually on behalf of the American taxpayer, it is critical that the agency carries out its responsibilities efficiently and effectively. After 2 years in operation, the centers have demonstrated their potential to improve customer service. However, our recent designation of the single-family program as a high-risk area shows that HUD's establishment of the homeownership centers has not fully resolved long-standing problems. Many of these problems stem from weaknesses in the Department's human capital management. This report contains recommendations designed to improve HUD's strategic human capital management at the centers, including its deployment and training of center staff and its overall analysis of the centers' human capital needs. HUD agreed with each of our recommendations.

Background

HUD's homeownership centers support the single-family activities of FHA.[3] FHA insures lenders against losses on mortgages for single-family homes. Lenders usually require mortgage insurance when a homebuyer

[3]FHA is a unit within HUD, and the Assistant Secretary for Housing is also the Federal Housing Commissioner.

makes a down payment of less than 20 percent of the value of the home. Thus, FHA plays a particularly large role in certain market segments, including loans to low-income borrowers and first-time homebuyers, whose cash for down payments is likely to be limited. During fiscal year 2000 alone, FHA endorsed over 900,000 mortgages totaling about $94 billion. If a borrower defaults and the lender subsequently forecloses on an FHA-insured mortgage, the lender can file an insurance claim with FHA for the unpaid balance of the loan. When FHA reimburses a lender for a defaulted loan, HUD receives the deed to the foreclosed property. HUD, in turn, sells this property via one of its management and marketing contractors to recoup as much of FHA's reimbursement as possible.

In the past, HUD carried out its single-family activities—such as processing mortgage insurance and overseeing appraisers and lenders participating in FHA's programs—in 81 separate field offices. During late 1993 and early 1994, HUD developed and tested a plan for consolidating these single-family activities into centers so as to achieve more efficient and effective operations. It established a pilot center in Denver and transferred the functions for processing and endorsing loans from 17 HUD field offices to the center.[4] In 1996, HUD declared that the pilot was a success. It found that the center reduced the time for processing loans from several weeks to a few days and required only about half as many staff as previously needed to process and endorse loans. In 1997, the homeownership centers became a key part of the 2020 Management Reform Plan.

HUD's 2020 plan was designed to address service-delivery problems that had prompted congressional proposals to severely downsize or eliminate HUD. According to the plan, the homeownership centers would correct problems with the delivery of single-family housing services, such as delays in processing insurance endorsements and inconsistent customer service. The plan stated that the homeownership centers would, among other things, (1) provide faster, more uniform, and more efficient services to clients, lenders, and borrowers; (2) improve HUD's risk assessment, loss mitigation,[5] and quality assurance activities; (3) increase HUD's

[4]The pilot involved only the loan processing and insurance endorsement functions. Consolidation of the rest of HUD's single-family activities was not piloted.

[5]FHA's loss mitigation program seeks, among other things, to reduce the number of foreclosures by using alternatives to foreclosure, such as loan modifications.

production of single-family loans to targeted populations; and (4) cut the processing time for insurance endorsements from 2 weeks to 1 day.

The 2020 plan envisioned downsizing HUD's workforce from 10,500 to 7,500 by fiscal year 2000. To help achieve this goal, HUD planned to reduce its single-family field workforce by about 60 percent and merge the numerous single-family field office responsibilities into homeownership centers.[6] The consolidation of activities at four centers was carried out in phases and was substantially completed in December 1998. The centers grant FHA-approved lenders direct endorsement authority, meaning that they can underwrite loans and determine their eligibility for FHA mortgage insurance without HUD's prior review. They also oversee the contractors who review loan case files and endorse or reject loans for FHA mortgage insurance on the basis of these reviews. To monitor lenders' compliance with FHA's mortgage requirements, the centers (1) oversee contractors hired to perform desk audits of the underwriting quality of individual loans already insured by FHA, known as technical reviews, and (2) conduct on-site evaluations of lenders' operations, known as lender reviews. The centers also monitor the contractors who manage and sell properties acquired through foreclosure. As shown in table 1, each homeownership center is divided into five divisions.

[6]Some single-family staff would remain at HUD headquarters.

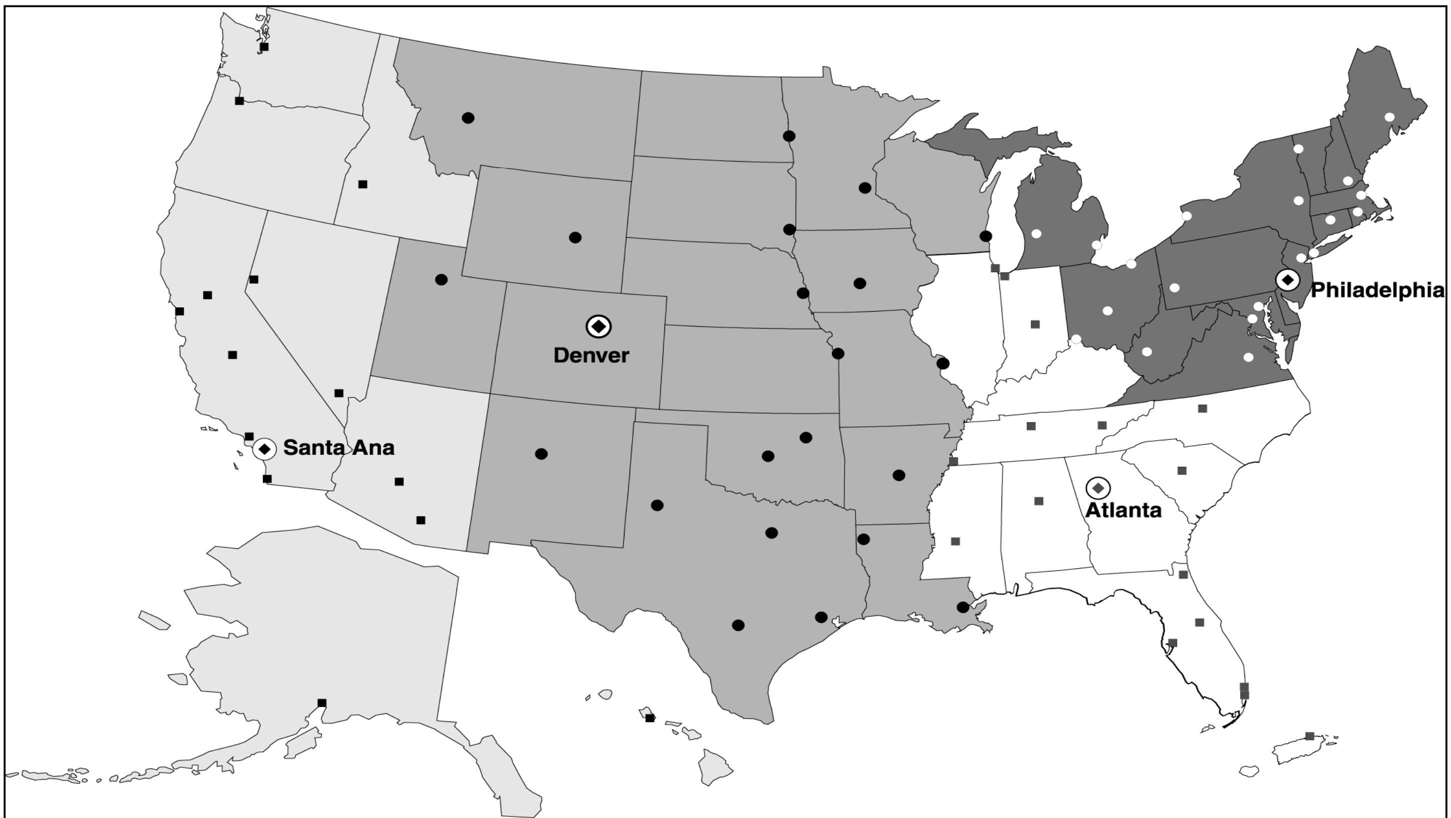
Table 1: Homeownership Center Divisions and Responsibilities

Division	Responsibilities
Processing and Underwriting	Reviews test cases prior to granting lenders direct endorsement authority and processes requests for FHA mortgage insurance
Real Estate Owned	Oversees the preservation and sale of homes acquired through foreclosure
Quality Assurance	Monitors mortgage lenders
Program Support	Performs an array of technical services, including contract and grant monitoring and property inspections
Program Operations and Customer Service	Provides internal operational support for the other divisions and customer service to lenders and the public

Source: HUD.

The homeownership centers are located in Atlanta, Georgia; Denver, Colorado; Philadelphia, Pennsylvania; and Santa Ana, California. Figure 1 shows the jurisdiction of each of the four centers, and the field office locations with center staff. The centers report directly to HUD's Deputy Assistant Secretary for Single Family Housing who, in turn, reports to the Assistant Secretary for Housing-Federal Housing Commissioner.

Figure 1: Geographical Jurisdictions of HUD's Four Homeownership Centers and Field Offices with Center Staff



Santa Ana Center:

■ Anchorage, AK
Phoenix, AZ
Tucson, AZ
Fresno, CA
Los Angeles, CA
Sacramento, CA
San Diego,CA
San Francisco, CA
Honolulu, HI
Boise, ID
Las Vegas, NV
Reno, NV
Portland, OR
Seattle, WA

Denver Center:

● Little Rock, AR
Des Moines, IA
Kansas City, KS
New Orleans, LA
Shreveport, LA
Minneapolis, MN
Saint Louis, MO
Helena, MT
Omaha, NE
Albuquerque, NM
Fargo, ND
Oklahoma City, OK
Tulsa, OK
Sioux Falls, SD
Fort Worth, TX
Houston, TX
Lubbock, TX
San Antonio, TX
Salt Lake City, UT
Casper, WY
Milwaukee, WI

Atlanta Center:

■ Birmingham, AL
Coral Gables, FL
Jacksonville, FL
Miami, FL
Orlando, FL
Tampa, FL
Chicago, IL
Gary, IN
Indianapolis, IN
Jackson, MS
Greensboro, NC
Columbia, SC
Knoxville, TN
Memphis, TN
Nashville, TN
San Juan, PR

Philadelphia Center:

○ Hartford, CT
Washington, DC
Bangor, ME
Baltimore, MD
Boston, MA
Detroit, MI
Grand Rapids, MI
Manchester, NH
Newark, NJ
Albany, NY
Buffalo, NY
New York, NY
Cincinnati, OH
Cleveland, OH
Columbus, OH
Pittsburgh, PA
Providence, RI
Burlington, VT
Richmond, VA
Charleston, WV

Source: GAO's analysis of data from HUD's Office of Housing.

In fiscal year 1999, the centers, with the help of contractors, endorsed about 1.3 million mortgages totaling $123.1 billion—a record in dollar terms. According to HUD, a strong economy and lower interest rates contributed to this success. The percentage of FHA-insured loans made to targeted populations also increased. For first-time homebuyers, the percentage increased from 70.3 percent in fiscal year 1997 to 80.7 percent in fiscal year 1999, and for minorities, it increased from 31 percent in fiscal year 1996 to 37 percent in fiscal year 1999. In addition, the processing time for insurance endorsements dropped from several weeks to a few days. The centers achieved this reduction in processing time through a combination of technology, direct endorsement by lenders, and contracting out. According to a representative of a major lender association, customer service has improved because the guidance that the 4 centers provide is more uniform than the guidance provided by the 81 different field offices.

Despite these successes, our recent reviews of operations at the homeownership centers revealed problems that can be attributed, in part, to human capital shortfalls. Specifically, we identified problems with the centers' oversight of appraisers, mortgage lenders, and property disposition contractors. These problems increased HUD's insurance risk and limited its ability to recoup losses upon foreclosure. According to center officials, a shortage of staff and insufficient training contributed to these oversight problems. For example, center officials cited in our April 2000 report on HUD's oversight of FHA lenders maintained that inexperience on the part of staff was one reason why high-risk lenders were not always reviewed.[7] The officials explained that many of the staff assigned to review lenders came from a pool of unassigned staff after the reorganization and had no background in lender monitoring and credit issues. Additionally, according to officials at the Philadelphia and Denver centers cited in our April 1999 report on HUD's oversight of appraisers, these centers rarely conducted on-site reviews of properties that contractors had field reviewed because the centers lacked sufficient staff and travel resources.[8] As a result, the centers neither tracked the

[7]*Single-Family Housing: Stronger Oversight of FHA Lenders Could Reduce HUD's Insurance Risk* (GAO/RCED-00-112, Apr. 28, 2000).

[8]*Single-Family Housing: Weaknesses in HUD's Oversight of the FHA Appraisal Process* (GAO/RCED-99-72, Apr. 16, 1999).

percentage of each contractor's work that received on-site reviews nor evaluated the contractor's performance. These shortfalls weakened HUD's ability to assess the quality of the appraisals used to support FHA loans.

Center Staff Are Not Deployed Where Needed

Under 2020, HUD planned to locate the majority of its single-family field staff in the four homeownership centers. However, because HUD subsequently decided not to force staff to relocate from the field offices, more center staff remain working in field offices than are needed. As of January 2001, 44 percent of the centers' workforce remained in field offices, compared with the 32 percent originally planned. Because the consolidation envisioned under the 2020 reforms has never been achieved, it has been difficult for the centers to use and supervise their scattered workforce. In addition, staff are not allocated across the centers according to workload. For example, the center with the largest workload does not have the most staff, making it more difficult for it to complete its work. Furthermore, increases in workload stemming from new initiatives, such as the Department's fraud prevention efforts, have created further challenges for the centers.

More Staff Remain in Field Offices Than Planned

Modifications to the original 2020 reforms have resulted in a slightly larger single-family workforce overall and more staff in the field offices than HUD initially projected. According to a report HUD issued in the spring of 1997 in support of the 2020 plan, the centers were to have a staff of 805 by fiscal year 2000.[9] We reported in March 1998 that this proposed staffing level was based on targeted staffing levels and the Department's staffing constraints, rather than a systematic analysis of workload to determine need.[10] HUD's plans assumed that the centers' workforce would be divided equally among the four centers. In May 1998, the Secretary decided to limit the planned downsizing, and as of January 2001, the centers had 841 full-time positions (see table 2).

[9]HUD's 2020 plan did not discuss the specific staffing level envisioned for the homeownership centers.

[10]*HUD Management: Information on HUD's 2020 Management Reform Plan* (GAO/RCED-98-86, Mar. 20, 1998).

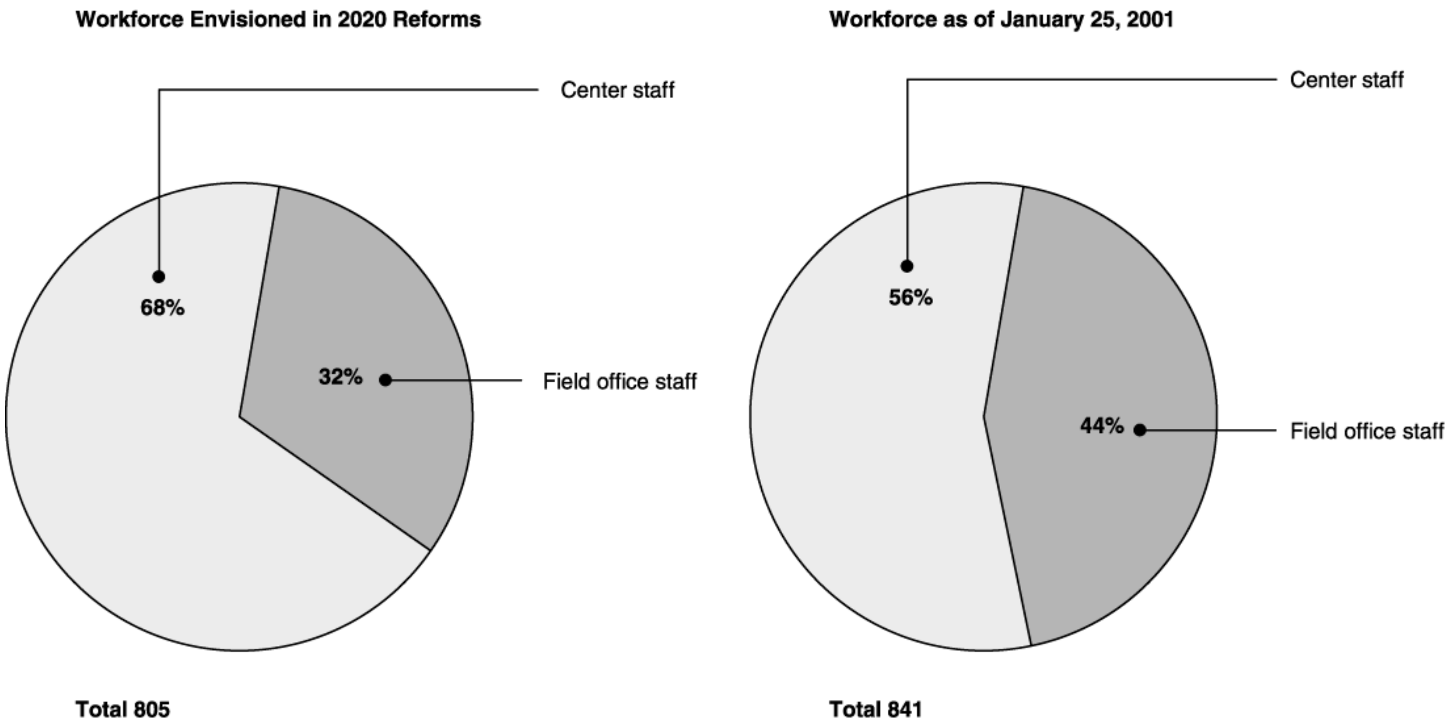
Table 2: Homeownership Centers' Workforce as of January 25, 2001

Homeownership center	Full-time positions
Atlanta	230
Denver	223
Philadelphia	210
Santa Ana	178
Total	**841**

Source: HUD's Office of Housing.

Under 2020, the majority of center staff were to be located at the centers and responsible for such activities as loan endorsements, reviews of FHA-insured loans, and management and oversight of HUD-acquired properties. Lender monitors and selected program support staff were to be located in field offices. Of the 805 staff originally planned for the centers, 551 were to be located at the homeownership centers, and 254, or 32 percent, were to be in the field offices. However, HUD decided in late summer 1997 not to force field office staff who had not yet been reassigned after the reorganization to relocate. Some of these unassigned staff were subsequently assigned to the centers but remained located in field offices. As of January 2001, 44 percent of the homeownership centers' workforce was still located in field offices (see fig. 2). As a result, 71 field offices still have single-family staff. We believe that leaving such a large percentage of center staff scattered across field offices is contrary to the original objective of the homeownership center concept, which was to increase efficiency through consolidation.

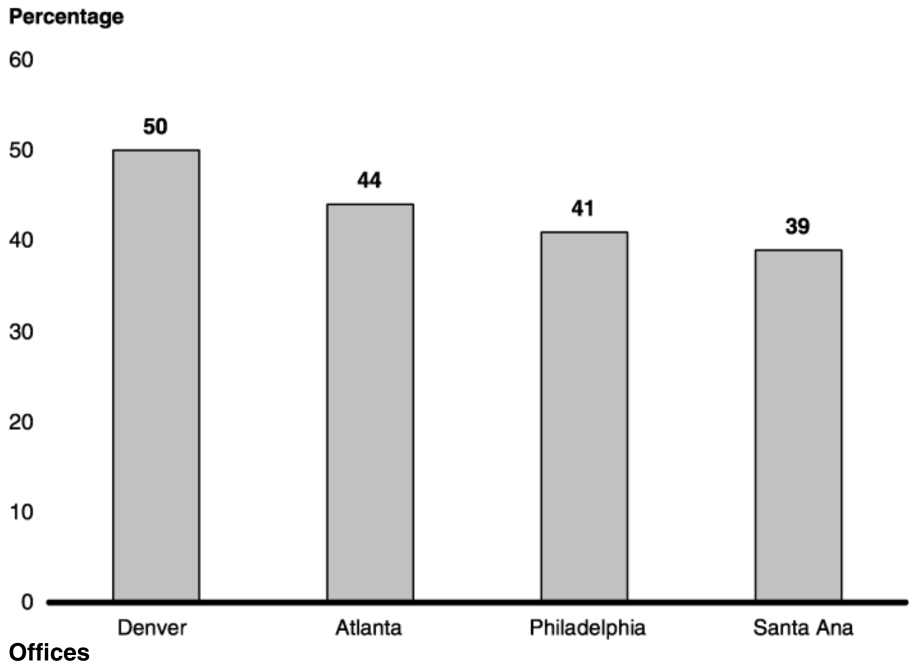
Figure 2: Differences Between the Workforce Originally Planned for the Centers and the Centers' Workforce as of January 25, 2001



Source: HUD's Office of Housing (2020 Reform Workforce) and GAO's analysis of data provided by the Office of Housing (January 25, 2001, Workforce).

As figure 3 shows, all four centers have about 40 percent or more of their staff located outside the actual center. The Denver center has the largest percentage of field office staff (50 percent), while the Santa Ana center has the smallest (39 percent).

Figure 3: Percentage of Each Homeownerships Center's Workforce Located in Field



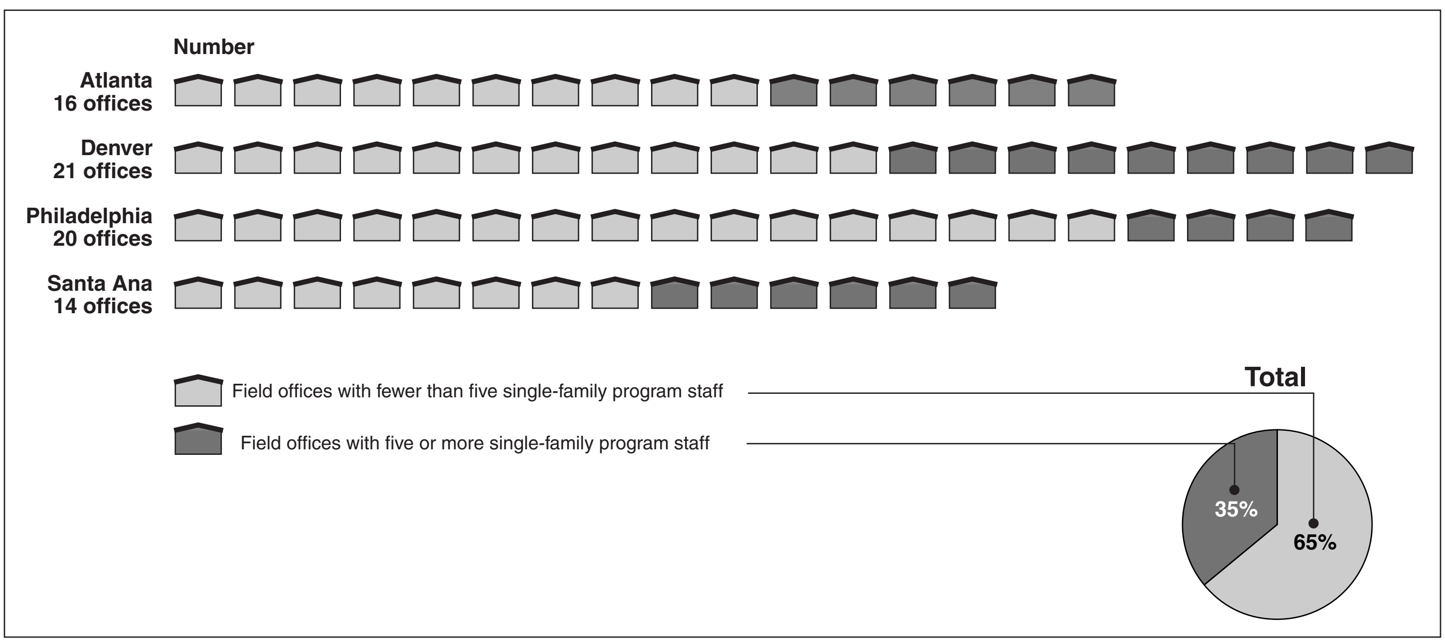
Source: GAO's analysis of data from HUD's Office of Housing.

Centers Have Found It Difficult to Use and Supervise Field Office Staff Effectively

Because the location of center field office staff was determined more by the location of staff who remained unassigned after the 2020 reorganization than by the centers' needs, the centers have had difficulty making effective use of staff that remain in field offices. The centers have used their field office staff in a variety of ways. For instance, some field office staff are performing lender reviews and overseeing management and marketing contractors as originally planned. All four centers are using field office staff to answer telephone calls and perform the bulk of the centers' customer service activities. Denver tasked its field office staff with determining the correct status of all properties erroneously classified as active properties in HUD's inventory. One field office employee assigned to the Santa Ana center has been designated to provide data from a major single-family information system to other center and HUD staff.

Despite their efforts to use field office staff, center managers told us that having such a large percentage of their workforce scattered across numerous locations makes it a challenge for them to use their field office staff effectively. The 4 centers have staff located in 71 field offices, with as many as 21 offices linked to a single center (see fig. 4). Moreover, each of the centers has staff located in more than 10 cities. To use these staff, the centers must sometimes ship case files to the field offices for review. For example, Denver ships files for technical review to staff in San Antonio, Texas; Salt Lake City, Utah; and Milwaukee, Wisconsin. In addition, 65 percent of the 71 field offices have fewer than five single-family staff. With such small contingents of field staff scattered across numerous locations, the centers cannot assign large projects to these offices. Furthermore, limiting field office staff to a single activity when they are trained to perform multiple functions can adversely affect their morale. For example, in an October 2000 report on the call center activities of its Richmond staff, the Philadelphia center concluded that continuing to limit the staff's duties to answering the telephones every day would lead to employee dissatisfaction and frustration, resulting in less effective customer service. While we believe that these activities may succeed in keeping field office staff busy, the effort required on the part of center managers to keep staff occupied hinders the centers' operations.

Figure 4: Staffing Levels of Field Offices With Single-Family Staff



Source: GAO's analysis of data from HUD's Office of Housing.

According to the results of quality management reviews reported by HUD in July and August 2000, center staff located in field offices were not always effectively employed. For example, at the Minnesota State Office in Minneapolis, eight customer service staff outstationed from the Denver center were reportedly so severely underemployed that they routinely went to other office staff asking for work to fill their workday. Similarly, at the Atlanta center, the review team found that a large number of the center staff were outstationed and underutilized, while staffing levels inside the center were inadequate.

The current distribution of staff poses challenges for supervision as well as workload management. Managers at all four centers expressed concerns about their ability to supervise their field office staff, 42 percent of whom do not have a supervisor on-site.[11] The Santa Ana center has the highest percentage of field office staff without an on-site supervisor (62 percent), while the Denver center has the smallest (25 percent). Several large contingents of field office staff—such as the nine employees in both Milwaukee, Wisconsin and Boise, Idaho and the eight employees in New York City, New York—do not have on-site supervisors. According to one center official, the lack of supervision at one of their field offices has exacerbated staff conflicts. The lack of adequate supervision can also affect office performance. HUD’s July 2000 quality management review found, for example, that Atlanta center staff outstationed in the Chicago field office would not meet performance goals assigned to them, in part, because they were inadequately supervised. Recently, the Denver center requested an on-site supervisor for the Milwaukee office in response to an agreement with the union to staff on-site supervisors in field offices with more than three employees. In its request, the center described this position as its most critical supervisory need because of the high number of employee grievances in the office. The Santa Ana center also requested an on-site supervisor for Boise, where the center has six customer service staff.

To better handle their workload, managers at all four centers told us that they would like to bring some of their field office staff into the center or move them to other field office locations. For example, the directors of the Atlanta and Philadelphia Operations and Customer Service Divisions

[11] We considered field office staff to have on-site supervision if the field office contained one or more of the following: a GS-14 or GS-15 housing program officer who reported directly to the center director, a branch chief, or a position with “supervisory” in the title.

would like to bring their customer service functions into the centers as their field office staff quit or retire. The acting director of the Quality Assurance Division in Santa Ana stated that he would like to bring some of his field monitors into the center because the majority of the lenders and most of the fraud activities in the center's jurisdiction are located in southern California. While Denver managers stated that some of the field offices in their jurisdiction have too many people, they thought they needed more staff in their Texas and Louisiana offices. In fact, the center has requested an additional quality assurance monitor for New Orleans because of the number of high-risk lenders in the area.

HUD's Deputy Assistant Secretary for Single Family Housing agreed that the centers' workforce is not optimally deployed, but he noted that there are several challenges associated with relocating field office staff and closing some field offices. First, he stated that HUD is required by law to have an office in each state "to ensure the adequate processing of applications" for FHA mortgage insurance.[12] Second, he noted that, in order to relocate field office staff and close field offices, the Department would need as much as $50,000 per person to pay for relocation costs or the authority to offer field office staff early retirement. According to an official in HUD's Office of Human Resources, HUD currently has voluntary early retirement authority through September 30, 2001.

Distribution of Staff Across Centers Does Not Reflect Current Workload

In initially allocating the centers' workforce, HUD assumed an equal division of workload, as well as a more extensive transfer of field office staff to the centers than actually occurred. In fact, the centers' workload is not divided equally, and this, combined with HUD's decision not to force field office staff to relocate, has resulted in disparities between workload and staffing across the four centers. The Atlanta and Denver centers have the most staff (see table 2), but the Philadelphia center has the largest workload in two key single-family areas—mortgage insurance endorsements and single-family acquired properties. Although contractors perform many of the activities associated with these functions at all of the centers, HUD staff monitor the contractors and perform various reviews

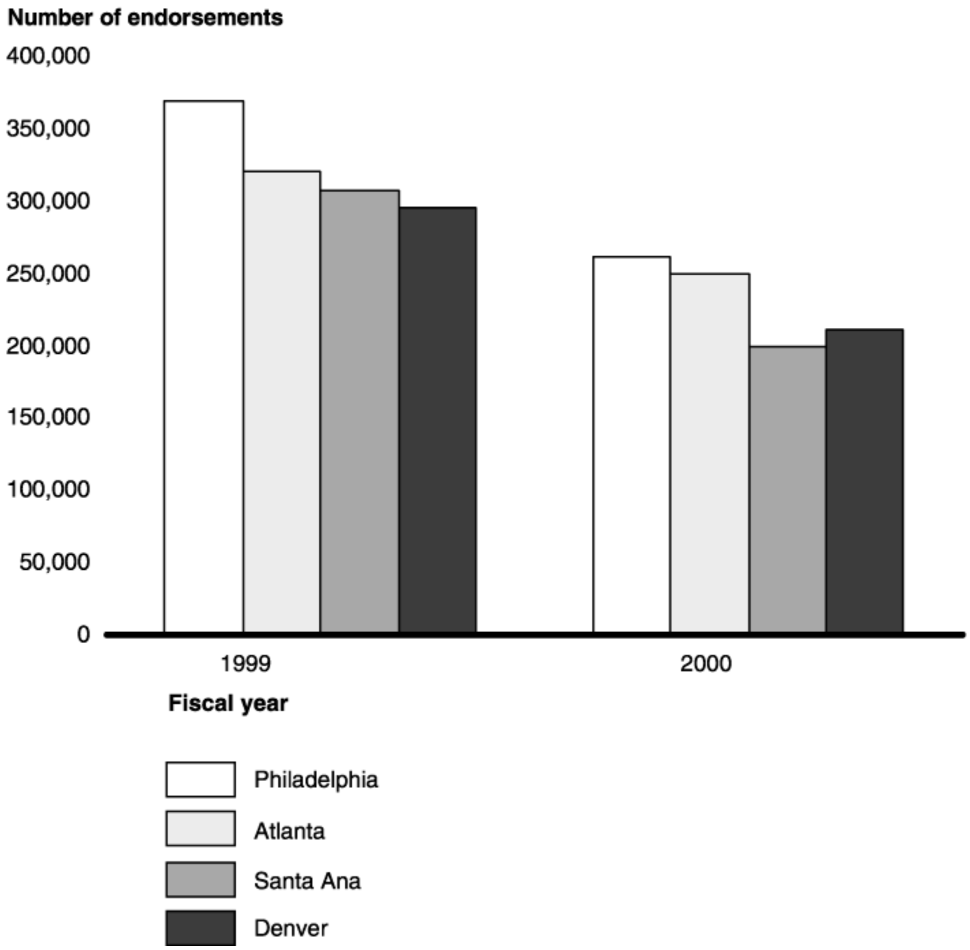
[12] See 12 USC 1735f-12 (a). According to an Assistant General Counsel in HUD's Office of General Counsel, HUD has not performed any formal analysis to determine what the Department must do to comply with this requirement. Since many of the mortgage insurance functions performed by HUD staff at the time the requirement was enacted have been shifted to mortgage lenders and contractors, he observed that a toll-free customer service number in a state might be enough to satisfy the requirement.

and inspections. Thus, the center staffs' workload increases with the contractors' workload.

In fiscal year 1999, the four centers processed about 1.3 million endorsements, with Philadelphia processing the most (see fig. 5). In fiscal year 2000, Philadelphia again processed more endorsements than the other three centers. It also processed over 50 percent of FHA's 203(k) endorsements in fiscal year 2000.[13] Furthermore, Philadelphia performed the greatest number of technical reviews, or evaluations of the underwriting quality of loans insured by FHA, in fiscal years 1999 and 2000 because each center's goal is to review at least 10 percent of the loans it insures. The director of Philadelphia's Processing and Underwriting Division told us that his division does the best it can with the staff it has. We believe that center staffing should reflect each center's workload.

[13]The 203(k) Home Rehabilitation Mortgage Insurance program combines, in one insured mortgage, the funds needed to purchase and rehabilitate a single-family home. Therefore, these loans are more complicated to process than other FHA loans.

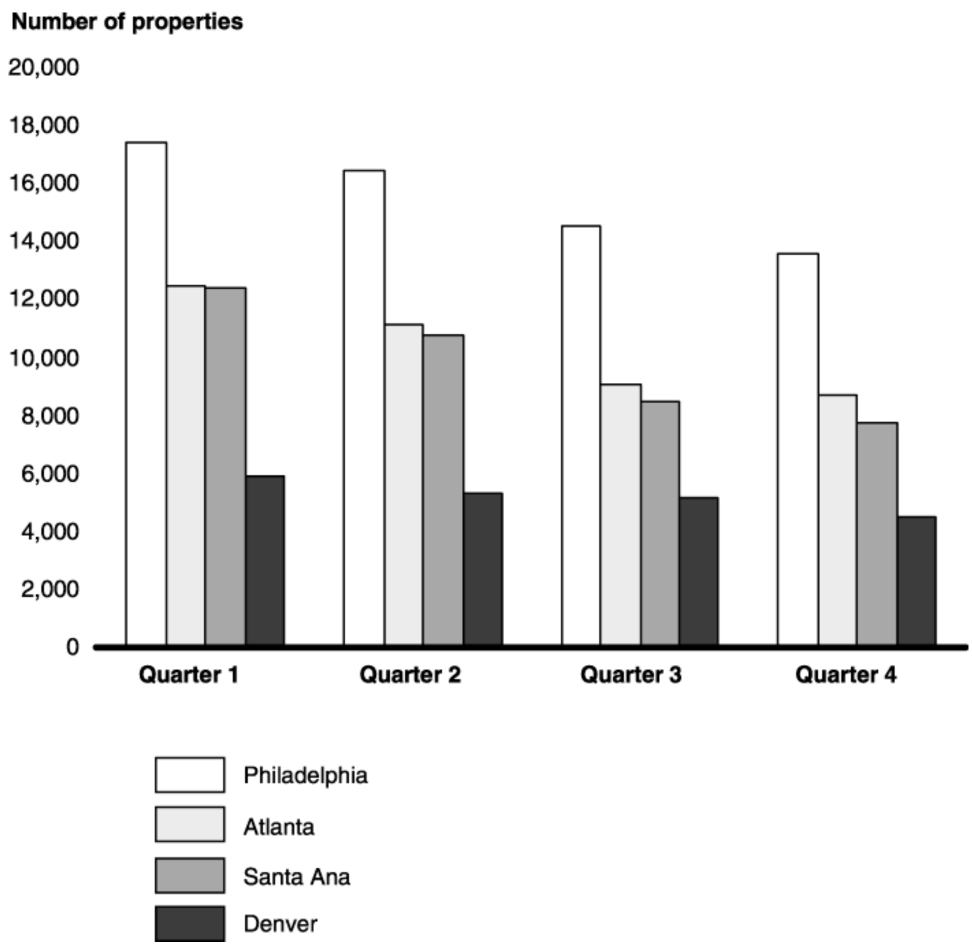
Figure 5: Endorsements Processed by the Four Homeownership Centers, Fiscal Years 1999 and 2000



Source: HUD's Office of Single Family Housing.

In addition to processing more endorsements than the other three centers, Philadelphia also had the highest volume of acquired single-family properties in fiscal year 2000, placing proportionally more demands on its workforce. As shown in figure 6, the Philadelphia center's inventory included about 14,000 properties at the end of fiscal year 2000, whereas the Atlanta and Denver centers' inventories included about 9,000 and 5,000 properties, respectively. Such disparities have led managers in Philadelphia's Real Estate Owned Division to conclude that their division is understaffed.

Figure 6: Single-Family Acquired Properties Managed by the Four Homeownership Centers At the End of Each Quarter of Fiscal Year 2000



Source: Single Family Acquired Asset Management System.

According to managers in Philadelphia's Real Estate Owned Division, other factors have added to the center's property disposition workload. For instance, many of the properties in the northeastern United States are older, and the cold climate requires additional maintenance activities, such as snow removal. In addition, according to these managers, HUD is legally required to remove all the lead-based paint from houses in the city of Philadelphia before they can be sold. Therefore, the center had to hire contractors to remove lead-based paint, creating additional oversight responsibilities for center staff.

According to the Associate Deputy Assistant Secretary for Single Family Housing, the Office of Single Family Housing realizes that it needs to better use its staff at the homeownership centers. However, before it can develop a plan for moving center staff around, it needs to determine how proposed changes to single-family business processes will affect the centers' need for staff. In the interim, Single Family Housing is considering temporary solutions such as transferring some of Philadelphia's loan processing workload to the Denver center.

New Initiatives Increase Centers' Workload

As the centers are struggling to use their staff effectively, a series of new initiatives have increased the centers' workload without increasing their staff resources. In some cases, the centers have requested, but not yet received, additional staff to help them with the new workload. These initiatives include HUD's Fraud Prevention Program, the recertification of nonprofit agencies that participate in FHA's programs, and HUD's Teacher Next Door and Dollar Homes programs. These initiatives and their impact on the centers' workload are as follows:

- To protect certain FHA borrowers from abusive mortgage practices, the Department, under its Fraud Prevention Program, designated certain low-income neighborhoods with higher-than-normal foreclosure rates as "hot zones" in the summer of 2000. The Atlanta center is responsible for hot zones in Atlanta and Chicago; the Philadelphia center is responsible for hot zones in Baltimore (the pilot) and New York; and the Santa Ana center is responsible for a hot zone in Los Angeles. In each of these hot zones, HUD instituted additional requirements to detect or guard against fraud. Center staff review mortgage applications to detect evidence of inflated property appraisals, examine defaulted loans, and review lenders to determine if they are following FHA's underwriting guidelines. In both Philadelphia and Santa Ana, the directors of the Processing and Underwriting Division stated that this hot zone work was their most staff-intensive duty. Staff in Philadelphia's Quality Assurance Division devoted 2-½ or 3 staff years to performing desk reviews of lenders as part of the Baltimore pilot. The Santa Ana center has asked to fill five vacancies in its Quality Assurance Division to help the division handle the workload associated with this initiative.
- In March 2000, HUD issued a mortgagee letter requiring the recertification, within 45 days of the letter's date, of all nonprofit agencies that wanted to

continue to participate in FHA activities.[14] While HUD had previously required nonprofit agencies to be recertified every 2 years, this mortgagee letter increased the centers' workload because all the nonprofit agencies were required to submit applications within a short period of time. Staff at all four centers had to be trained on the new recertification process. Two Program Support Division directors stated that this was their division's most staff-intensive duty, while managers representing the Program Support Divisions at the other two centers described the initiative as a major workload item. Each center assigned 10 or more staff to the project for up to 9 months.

- The Teacher Next Door Program, announced in December 1999, allows teachers to purchase HUD-owned homes at 50 percent off the list price in HUD-designated revitalization neighborhoods.[15] (HUD introduced a similar program for police officers in 1997.) The Dollar Homes Program, effective in May 2000, allows local governments to purchase HUD-owned homes that have not sold within 6 months for $1 each. As part of HUD's recent hiring initiative, the Santa Ana center asked to fill two vacancies in its Program Support Division to provide oversight and monitoring for these programs. In February 2001, HUD's Inspector General concluded that the management control procedures that HUD had in place for the Officer/Teacher Next Door programs were not adequate, which significantly increased the risk of program fraud and abuse.[16] About a month and a half later, HUD announced that it would suspend these two programs for 120 days while it strengthened its oversight measures.

[14]Nonprofit agencies can apply for approval to (1) act as a mortgagor using FHA mortgage insurance, (2) purchase the Department's properties at a discount, and (3) provide secondary financing.

[15]Revitalization neighborhoods are neighborhoods that offer significant opportunities for local economic growth and are, therefore, receiving targeted public and private-sector assistance.

[16]*Interim Results – Officer/Teacher Next Door Program* (Report No. 2001-AT-0801, Feb. 14, 2001).

Lack of Curriculum and Timing of Funding Restricts Training Provided to Center Staff

HUD has not developed a formal single-family training curriculum to guide the homeownership centers' requests for training and to ensure that center staff develop the skills they need to accomplish their missions. For fiscal years 1999 and 2000, a request of about $1.5 million for single-family training was developed on the basis of input from center managers. Of the amount requested for single-family training in these 2 years, HUD provided about $331,000, or 22 percent. The centers had difficulty effectively using these training funds because HUD provided them late in the fiscal year and then pulled back some funds before they could be used.

No Formal Training Curriculum to Guide Centers' Training Decisions

HUD has not established a formal training curriculum to guide the centers' requests for training and to ensure that the centers use the training funds they receive to help the staff acquire and sharpen the skills they need to carry out their work. Our work at the centers showed that center managers desire training for their staff. For example, over 70 percent of the homeownership center managers we surveyed told us that training in the use of information systems and in technical skills related to job responsibilities should be increased.[17] In addition, the centers' training requests for fiscal year 2001 showed that training in such areas as organizational skills, writing, project management, and investigative techniques is needed. Finally, staff would like HUD to pay for training needed to maintain professional certifications, such as appraiser licenses. One headquarters official told us that it is very important that HUD professional staff, such as appraisers, be on a par with and have the same professional certifications as their peers, whose work the HUD staff review.[18]

The training requested for the centers is based on center managers' yearly assessments of training needs rather than on a set of required training courses to be provided to center staff.[19] For example, according to Office

[17]As part of our Performance and Accountability Series, we surveyed HUD managers between September and October 2000 to obtain their views on staffing and workload issues after HUD implemented its 2020 plan.

[18]For fiscal year 2001, the Training Academy provided the Office of Housing with $70,000 to support this type of training and other discretionary fees and tuition training. This was the first time in the last 3 years that such funds were provided.

[19]Currently, managers at the homeownership centers annually assess their staffs' training needs, and their training requests are consolidated and transmitted through HUD's Office of Single Family Housing and Office of Housing to HUD's Training Academy. The Training Academy allocates training funds among HUD's program offices and coordinates the training.

of Single Family Housing officials, HUD has provided lender monitors with extensive basic auditing training but has not established what other types of skill training these monitors should receive. The officials stated that beyond this basic training, HUD provides training to the monitors that managers believe will help monitors react to new situations that they may encounter during their audits, such as the latest lender fraud schemes or new mortgage requirements. While we agree that training plans for the centers should include introductory training and updates to reflect industry trends, it is also important for training plans to provide for developing advanced skills that will better enable center staff to fulfill their responsibilities. In our view, a formal training curriculum would accomplish this.

The Deputy Assistant Secretary for Single Family Housing and other single-family housing officials told us that HUD has not established a formal training curriculum for center staff and that it would be premature for HUD to do so because the centers' duties and responsibilities are changing. For example, the Deputy Assistant Secretary said that HUD intends to implement the automated underwriting of FHA-insured loans and still hopes to implement a lender insurance program.[20] Both of these initiatives would affect the duties and responsibilities of the centers' processing and underwriting staff. As a result, in the view of the Deputy Assistant Secretary for Single Family Housing and other single-family housing officials, HUD needs to wait for the centers' activities to stabilize before it considers establishing a standard training curriculum for center staff. Recent experience at the centers suggests, however, that responsibilities at the centers will continue to fluctuate and may never remain constant for long. Furthermore, a curriculum that provides comprehensive training would help ensure that staff are qualified to handle change.

Timing Limits Effective Use of Training Funds

The centers have found it difficult to use their training funds effectively because HUD provided them late in the fiscal year and pulled some funds back before they could be used. For fiscal years 1999 and 2000, the Office of Housing requested a total of about $1.5 million for single-family

[20]Under the lender insurance program, HUD would further delegate the authority to insure single-family mortgages to certain mortgagees that are approved under the direct endorsement program.

program training.[21] As shown in table 3, the Training Academy approved slightly more than half of this amount, but the total spent for single-family program training was only about 22 percent of the total requested for the 2 fiscal years.[22]

Table 3: Dollar Amounts of Single-Family Program Training Requested, Approved, and Provided for Fiscal Years 1999 and 2000

	Total dollar amount of single-family program training		
Fiscal year	Requested by the Office of Housing	Approved by the Training Academy (percent of request)	Spent (percent of request)
1999	$739,800	$366,000 (50%)	$145,538 (20%)
2000	$794,400	$484,400 (61%)	$185,518 (23%)
Total	**$1,534,200**	**$850,400 (55%)**	**$331,056 (22%)**

Source: GAO's analysis of data provided by HUD's Office of Housing and Training Academy.

HUD's Deputy Assistant Secretary for Single Family Housing told us that the centers have difficulty using all of their training funds because the Training Academy provides the funds late in the fiscal year and then pulls some funds back before the centers have a chance to use them. He stated that training must be scheduled around staff vacations and other events. He also noted that those responsible for planning and scheduling training assume that training funds will be available all year, but this has not been the case. For example, Office of Housing records show that for fiscal year 1999, the Academy provided its final training fund allocation to Housing on March 16, 1999. However, the records also show that on July 1, 1999, the Academy notified Housing that training funds were no longer available for the remainder of the fiscal year. As a result, according to Housing's training coordinator, Housing lost $200,000 of the single-family training funds approved by the Academy for fiscal year 1999, and conducted only two of the four approved training courses. According to HUD's Deputy Assistant Secretary for Single Family Housing, his office had to use all of

[21]For the 2 fiscal years, the Office of Housing also requested a total of about $7.2 million for multifamily and other program training. Of this amount, HUD approved about $3.1 million, or 43 percent.

[22]For fiscal year 2001, the Office of Housing requested approximately $639,000 in single-family program training. HUD's Training Academy approved $240,000, or about 38 percent of this request.

its single-family training funds for fiscal year 2000 by the third quarter because any funds left over would be taken back. A Training Academy official told us that because of a travel fund cap in fiscal year 2000, the Training Academy pulled back some of the single-family training funds that it had approved for the fiscal year.

The Centers Make Extensive Use of Contractors, but Monitoring Has Been a Significant Challenge

The centers' reliance on contractors has grown, but the ability of HUD staff to monitor contractors has not kept pace. As proposed in its 2020 plan, HUD has contracted out the management and marketing of properties it acquires through foreclosure. In addition, the Department has hired contractors to perform many routine mortgage insurance endorsement activities—such as issuing mortgage insurance certificates and reviewing individual insured loans to monitor lenders' performance—and to monitor the performance of its management and marketing contractors. As HUD's reliance on contractors has grown, our past work and the work of HUD's Inspector General have shown that the centers have frequently had problems with both monitoring contractors and ensuring they perform as required.

Centers Have Expanded Their Use of Contractors

Because of increases in the centers' responsibilities and staff shortages, HUD is using contractors more than it projected in its 2020 plan. The plan stated that HUD functions would be privatized where efficiency or expertise dictated and specified that activities related to the management and sale of the single-family properties HUD acquires through foreclosure would be streamlined or contracted out. In April 1998, HUD's Office of Single Family Housing issued a risk assessment of the homeownership center concept in which it stated that contractors would be used to fill in gaps in skill and expertise and that contractual assistance could be increased or decreased to meet production goals based on fluctuations in single-family activity.[23] The Office of Single Family Housing also noted that if sufficient staff were not available, contractors might also be used to monitor the performance of other contractors.

As shown in table 4, contractors currently perform many of the centers' day-to-day mortgage insurance endorsement and property disposition activities, while the program staff spend time monitoring contractors.

[23] *Single Family Homeownership Centers Front End Risk Assessment*, Office of Single Family Housing, Apr. 27, 1998.

According to officials in HUD's Office of Single Family Housing, the centers were forced to rely more on contractors than originally planned because HUD's plan to further delegate the authority to insure single-family mortgages to mortgage lenders was never implemented. When the centers did not receive any additional staff to handle this responsibility, they had to rely on contractors. Contractors now help to process mortgage insurance, review individual loans to monitor lenders' performance, and manage and market HUD's inventory of acquired single-family properties. In some cases, contractors monitor the performance of other HUD-hired contractors. For instance, HUD has hired third-party contractors to inspect 10 percent of the properties handled by each of the management and marketing contractors. Another national contractor is responsible for reviewing 10 percent of the management and marketing contractors' property case files each month.

Table 4: Entity That Performs Routine Mortgage Insurance Endorsement and Property Disposition Activities

Activity	Performing entity
Mortgage insurance endorsement	
Perform preclosing reviews of test cases submitted by lenders seeking direct endorsement authority and lenders that have had their direct endorsement authority suspended	Contractor/program staff[a]
Log loan case files submitted by lenders to the centers for insurance endorsement	Contractor
Review loan case files to ensure that paperwork is present and complete and issue mortgage insurance certificates	Contractor
Select sample of all endorsed loans for review	Program staff
Perform technical reviews of insured loans[b]	Contractor
Oversee technical review contractors	Program staff
Property disposition	
Manage and market acquired single-family properties	Contractor
Inspect properties maintained by management and marketing contractors	Contractor
Review files maintained by management and marketing contractors	Contractor
Oversee property inspection contractors and file review contractor[c]	Program staff
Provide closing agent services	Contractor
Oversee closing agents	Program staff
Process and review invoices submitted by management and marketing contractors	Contractor
Assess the performance of management and marketing contractors	Program staff

[a]At the Atlanta center, a contractor performs preclosing reviews of lenders seeking direct endorsement authority, and program staff perform such reviews of lenders that have had their direct endorsement authority suspended. At the Santa Ana center, a contractor performs the vast majority of preclosing reviews of lenders seeking direct endorsement authority and lenders that have had their direct endorsement authority suspended. At the Denver and Philadelphia centers, program staff perform all preclosing reviews, but the Philadelphia center is in the process of contracting out this activity.

[b]These reviews are desk audits performed to evaluate the underwriting quality of loans insured by FHA.

[c]Program staff conduct follow-up property inspections and file reviews on a 10-percent subset of the properties reviewed by HUD's third-party contractors.

Source: GAO's analysis of HUD information.

In addition to contracting out many routine insurance endorsement and property disposition activities, HUD is assessing the feasibility of contracting out lender reviews traditionally performed by center staff. In September 2000, the Philadelphia center hired two contractors to perform up to 20 on-site reviews of lenders. These extra reviews are part of a pilot program designed to provide supplemental monitoring reviews and to assess the effectiveness of the risk management policies and procedures HUD uses to monitor lenders.

To determine the extent to which HUD has used contractors in its single-family program, we analyzed data that the Department provided on its single-family contract obligations. Our analysis showed that the Department obligated $458 million and $390 million, respectively, for single-family contract support in fiscal years 1999 and 2000.[24] These single-family contract obligations represented 37 percent and 30 percent of HUD's total contract obligations for these 2 fiscal years. See appendix II for more information on HUD's single-family contract obligations.

Centers' Oversight of Contractors Has Been Inadequate

Although HUD previously had used contractors in various aspects of its property disposition activities, some center managers told us that it was a challenge for their staff to shift from performing insurance endorsement and property disposition activities themselves to monitoring the performance of contractors. For example, according to the former director of the Philadelphia center, staff initially assigned to the center's Processing and Underwriting Division were very familiar with certain loan endorsement functions but were not experienced in monitoring contractors. To address this problem, the division trained certain staff to be contract monitors. Managers at both the Philadelphia and Santa Ana centers noted that it was difficult for their staff to move from managing and selling HUD-owned properties with the assistance of contractors to overseeing the performance of contractors solely responsible for property disposition.

Our past work and the work of HUD's Inspector General have shown that the centers have had difficulties monitoring their contractors' performance. In May 2000, we reported that HUD's assessments of the performance of its management and marketing contractors did not follow a consistent format and did not always determine the level of risk posed by contractors' performance, making it difficult to compare and track the performance of contractors over time.[25] In addition, we reported that HUD lacked the tools needed to ensure that the contractors actually performed

[24]Although HUD contracted out more activities in fiscal year 2000, its total obligations for single-family contracts declined because, among other reasons, HUD obligated about $88 million less for managing and marketing its properties.

[25]GAO/RCED-00-117.

as required. In April 2000, we reported that three of the four centers were not tracking the work of their technical review contractors against prescribed standards.[26] As a result, these centers lacked the information necessary to evaluate the quality of the contractors' work or to determine whether actions should be taken against the contractors for poor performance. Since technical review contractors evaluate the quality of the loans HUD is insuring, poor performance by these contractors could increase HUD's insurance risk.

In its most recent semiannual report to the Congress, HUD's Inspector General stated that "HUD is compensating for staff shortages through contracting out major activities" and concluded that "HUD is not prepared to effectively monitor this increased level of contractor activity."[27] The Inspector General cited its September 2000 report on HUD's single-family property disposition program as evidence that HUD is not equipped to oversee contractors' performance. In that report, the Inspector General noted that HUD's management and marketing contractors had not performed timely inspections, corrected hazardous conditions, made repairs, or performed routine maintenance to preserve and protect properties. The poor property conditions decreased marketability, increased FHA's holding costs, and negatively affected surrounding communities. Although FHA was aware of these problems, it had not been successful in improving property conditions and compliance.

The centers' failure to develop effective selection procedures for reviewing contractors' work, including procedures that incorporate risk factors into contractor oversight, has affected the centers' ability to monitor their contractors. In the absence of such procedures, HUD has not been making the most efficient use of its monitoring resources. In response to our recommendations, HUD recently incorporated risk factors when monitoring the performance of appraisers and lenders. In April 1999, we reported that HUD was not targeting appraisers who performed 10 or more appraisals during a given period for field reviews.[28] Without performance information on these individuals, HUD had little assurance that they were conducting accurate and thorough appraisals. We also

[26] GAO/RCED-00-112.

[27] *Semiannual Report to the Congress as of September 30, 2000*, HUD Office of Inspector General.

[28] GAO/RCED-99-72.

concluded in April 2000 that the centers were not using a risk-based selection process when choosing lenders for lender monitor reviews and loans for technical reviews.[29] Therefore, while the centers were meeting their goals in these two areas, they were not always reviewing the lenders and loans that posed the greatest insurance risk. Subsequent to our reports, HUD instituted a more risk-based approach for field appraisals and lender monitor reviews. In June 2000, HUD adopted new procedures for selecting appraisals for review. These procedures direct HUD staff to consider the amount of time since the last review and statistical indicators of appraisal quality. Similarly, when selecting lenders for review, center staff must now consider factors such as lenders' default rates, lenders' loan volume, borrowers' complaints, and reports of fraudulent activity.

HUD has just begun to incorporate risk factors in its monitoring of management and marketing contracts—contracts that represented almost half of the single-family program's contract obligations in fiscal year 2000. In the past, HUD used a national contractor to review a random 10-percent sample of the management and marketing contractors' property case files each month. In September 2000, the Department hired a new national contractor to conduct operational, management, and performance reviews of each management and marketing contractor. This new contractor is developing a risk-based methodology for performing on-site reviews of management and marketing contractor compliance. The methodology will include, among other things, the use of a statistically valid sampling methodology. However, it is too soon to assess what impact these new procedures will have on the Department's oversight of its management and marketing contractors.

Planning Tools Could Help HUD Improve Centers' Operations

HUD has started to employ several planning tools to help target its single-family program resources more effectively. These include establishing goals and objectives for the homeownership centers through strategic planning and using a resource estimation model to analyze workload and staffing requirements at the centers. In addition, HUD has recognized the need for succession planning and started using our human capital checklist.[30]

[29] GAO/RCED-00-112.

[30] *Human Capital: A Self-Assessment Checklist for Agency Leaders* (GAO/OCG-00-14G, Sept. 2000, Version 1).

HUD's strategic plans have established a mission for the Department and goals and objectives for the single-family program and homeownership centers. These plans were developed under the Government Performance and Results Act of 1993, which requires HUD and other federal agencies to set goals, measure performance, and report on their accomplishments as a means of achieving results. HUD issued its first strategic plan in September 1997, shortly after publishing its 2020 plan. In its most recent strategic plan, HUD states that its overall mission is to promote adequate and affordable housing, economic opportunity, and a suitable living environment free from discrimination. The strategic goal for which the homeownership centers are partly responsible is increasing the availability of decent, safe, and affordable housing in American communities. The Department has translated this strategic goal into specific strategic objectives and a business operating plan for the homeownership centers. The centers' strategic objectives are to increase homeownership and reduce disparities in homeownership rates among groups defined by race, ethnicity, and disability status. Their business operating plan includes goals to increase the number of insurance endorsements and to perform a certain number of lender monitoring reviews each year.

HUD has assessed staffing requirements at the centers. Concerned that HUD did not have a system to assess its human capital needs, the Congress commissioned the National Academy of Public Administration (NAPA) in 1997 to examine HUD's process for estimating resource needs.[31] The study, completed in 1999, developed and pilot-tested a resource estimation and allocation process—a resource management approach that bases estimates and allocations of staff resources on the level of work that should be done and the place where it is performed.[32] In August 2000, HUD awarded a contract to Arthur Andersen to use NAPA's model to determine resource allocation needs departmentwide. Arthur Andersen analyzed the workload at the Atlanta center, projected the results of this analysis to the other centers, and in March 2001, recommended a net decrease of 31 staff in the total center workforce. Specifically, it recommended that the two divisions with the largest percentage of field office staff be reduced by 92 staff and that the other three divisions be increased by 61 staff. The Associate Deputy Assistant

[31]NAPA is an independent, nonpartisan organization chartered by the Congress to improve governance at all levels—federal, state, and local.

[32]*Aligning Resources and Priorities at HUD: Designing a Resource Management System* (Washington, D.C.: NAPA, Oct. 1999).

Secretary for Single Family Housing disagreed with the recommended decrease, noting that the center directors believe they need more staff. She said Arthur Andersen's application of NAPA's model did not recognize that field office staff, because of their decentralized deployment, cannot be used as effectively as center staff. She also characterized the questionnaire used by the contractor to assess differences in functions among the four centers as difficult for center staff to fill out accurately. Therefore, she believed that the staff's answers may not have captured the differences in operations.

In addition to assessing the centers' workforce needs, HUD has recognized the need for succession planning. This type of planning is designed to ensure leadership continuity for all key positions by developing activities that will build talent from within. Succession planning is necessary at HUD because a large percentage of the Department's workforce is eligible for retirement. The Department reported in August 2000 that about 41 percent of the workforce in the Office of Housing, which includes the homeownership centers, was eligible for optional (i.e., regular) or early retirement. Within the next 3 years, HUD estimates that 53 percent of Housing's workforce will be eligible for optional or early retirement.

Another tool that HUD is using to address its human capital challenges is our human capital self-assessment checklist, published in September 2000. The checklist is designed to help agencies focus on human capital as a strategic asset by providing a tool for assessing their human capital approaches in light of their organizational needs. In general, the checklist enables agencies to determine whether their human capital approaches have been designed to support their mission, goals, and other organizational intents. More specifically, the checklist may help HUD plan its deployment of staff, training, and strategies for monitoring contractors in light of the five key areas identified in the framework: strategic planning, organizational alignment, leadership, talent, and performance culture. HUD's Office of Human Resources has used this five-part framework to ensure that the Department is addressing important human capital issues. However, HUD's Office of Single Family Housing has not used the checklist to assess the homeownership centers' specific human capital needs. (See app. III for more information on our human capital framework.)

Conclusions

After 2 years in operation, the homeownership centers have demonstrated their potential to improve single-family program operations and customer service. However, given the multibillion-dollar insurance risk that FHA assumes annually, it is critical for HUD to address the human capital challenges at the centers. Changes in single-family business processes and increases in the centers' responsibilities have exacerbated the current imbalances in homeownership center staffing. These imbalances create inefficiencies, as well as problems with supervision and morale. HUD's application of NAPA's resource estimation model was a first step toward addressing these imbalances. But until HUD determines where center staff should be deployed to meet its current organizational needs, develops a deployment plan, and implements this plan, it will not be able to maximize the centers' effectiveness.

As the centers' business processes evolve and their responsibilities grow, training will be critical. Determining what skills center staff need is an essential first step in providing them with the training they require, as well as a logical first step in developing a formal training curriculum. As the current staff retire and new staff are hired, HUD will have an opportunity to refine and expand its understanding of the centers' training needs, specify training requirements to meet those needs, and develop a formal training curriculum that encompasses the requisite skills and establishes an appropriate sequence for teaching and reinforcing them. Setting training priorities and communicating these priorities to the Training Academy will also be important to ensure that the centers' most critical training needs are met when training funds are limited.

HUD's substantial and growing reliance on contractors to perform single-family activities once conducted in-house requires efficient and effective oversight. Our previous work at the centers has shown that their monitoring of contractors has been inadequate. The Department recently incorporated risk factors in its monitoring of lenders and appraisers and has begun to incorporate risk factors in its monitoring of management and marketing contractors. These are steps in the right direction. Since we have made a number of recommendations in the past designed to improve HUD's oversight of its contractors, we are making no new recommendations in this report regarding contractor oversight.

Although HUD has begun to use our human capital self-assessment checklist to assess its human capital plans for the Department as a whole, it has not developed a strategic human capital management plan for the homeownership centers. To its credit, HUD has used NAPA's resource estimation model to determine the workforce needs at the centers and begun to consider succession planning. However, strategic human capital planning involves much more than determining workforce needs. Integrating the results of its workforce analysis with other aspects of human capital planning, such as workforce deployment and training strategies, will enable HUD to better position the centers for the future. As it reviews the centers' current and future workforce and training needs and plans for upcoming retirements at the centers, it can benefit from using our human capital self-assessment checklist to guide its efforts.

Recommendations for Executive Action

To address the human capital challenges facing HUD's homeownership centers, we recommend that the Secretary of Housing and Urban Development direct the Assistant Secretary for Housing-Federal Housing Commissioner to

- assess the deployment of the centers' workforce in light of current organizational needs, develop a plan for locating center staff where they are needed, and deploy the staff accordingly;
- develop a training curriculum for center staff that ensures that available training funds are allocated and used to develop the skills that the staff need to perform their responsibilities; and
- use tools, such as our human capital self-assessment checklist, to develop a strategic human capital management plan for the homeownership centers that considers all areas of human capital management, including the size of the workforce, workforce deployment, training, and oversight of contractors.

Agency Comments and Our Evaluation

The Assistant Secretary for Housing-Federal Housing Commissioner provided written comments on a draft of this report in a June 22, 2001, letter, which is reprinted in appendix IV. Overall, HUD agreed with our three recommendations, commenting as follows on each:

- HUD stated that it is assessing the deployment of the centers' workforce in the course of implementing a resource estimation and allocation process. HUD proposes to reduce the number of outstationed staff through attrition and develop a plan for redistributing the centers' workload.
- HUD noted that it is currently identifying core skill requirements for each major program area and plans to develop a training curriculum for center staff that addresses these requirements.
- HUD agreed that there is room for improvement in its human capital planning and management strategy. It noted that, in addition to using our human capital self-assessment checklist and implementing a resource estimation and allocation process, it is developing agency staffing plans and performing workforce analysis. It further noted that, because the human capital planning and management issues cited in our report are not

unique to the homeownership centers, the Department is addressing these issues in the overall context of its resource management efforts.

HUD also provided technical comments on specific issues discussed in the report. HUD's letter and our responses to these technical comments appear in appendix IV.

Scope and Methodology

We conducted our work at HUD headquarters and at all four of the Department's homeownership centers in Atlanta, Denver, Philadelphia, and Santa Ana. Our review focused on staffing, training, and contract support. We reviewed HUD's 2020 Management Reform Plan and supporting documents. We interviewed officials from HUD's Office of Single Family Housing, Training Academy, and the four centers. We reviewed documentation to determine the workforce and training provided to the four centers. To determine how much HUD obligated for single-family contract support in fiscal years 1999 and 2000, we analyzed data HUD provided from the HUD Procurement System. Although the data were not used to draw any conclusions or make recommendations, we assessed the integrity of the data through electronic testing and working closely with the agency official who provided the data. We determined that the data were reliable enough for the purposes of this report. Finally, we reviewed HUD's strategic plan, information on HUD's implementation of NAPA's Resource Estimation and Allocation Process, and HUD's succession and workforce planning documents. We performed our work from July 2000 through April 2001 in accordance with generally accepted government auditing standards.

As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 10 days after the date of this letter. At that time, we will send copies to the Chairman, Subcommittee on Housing and Transportation, Senate Committee on Banking, Housing, and Urban Affairs; the Chairman and the Ranking Minority Member, Senate Committee on Banking, Housing, and Urban Affairs; the Chairwoman and the Ranking Minority Member, Subcommittee on Housing and Community Opportunity, House Committee on Financial Services; and the Chairman and the Ranking Minority Member, House Committee on Financial Services. We will also send copies to the Secretary of Housing and Urban Development; the Assistant Secretary for Housing-Federal Housing Commissioner; and the Director of the Office of Management and Budget. We will make copies available to others upon request.

Please call me on (202) 512-2834 if you or your staff have any questions about this report. Key contributors to this report are listed in appendix V.

Sincerely yours,

Stanley J. Czerwinski
Director, Physical Infrastructure Issues

Appendix I: Objectives, Scope, and Methodology

Our objectives were to examine (1) the deployment of staff at the Department of Housing and Urban Development's (HUD) homeownership centers, (2) the training provided to center staff, and (3) the centers' monitoring of their contractors. In addition, we examined HUD's use of planning tools to target its homeownership center resources effectively.

To examine the deployment of the homeownership centers' staff, we reviewed HUD's 2020 Management Reform Plan and supporting documents to determine the workforce and deployment planned for the centers. The supporting documentation reviewed included the April 1997 draft organization plan prepared by HUD's Office of Housing; the March 1998 Booz-Allen & Hamilton assessment of HUD's implementation of the 2020 plan; and the April 1998 Office of Single Family Housing assessment of the homeownership centers' susceptibility to fraud, waste, and mismanagement. We interviewed officials in HUD's Office of Single Family Housing concerning the homeownership center concept and the assumptions used to develop estimates of the staffing needed at the centers. To determine the actual number of staff provided to the centers and their deployment, we analyzed information provided by HUD's Office of Housing on the size and location of each of the four centers' workforce as of January 25, 2001. To determine how the deployment of the centers' staff has impacted center operations, we interviewed the director and division heads at all four centers to obtain information on the centers' accomplishments and their workload and resource challenges. We obtained and analyzed information from each center on its staffing needs and hiring plans and on each center's workload and performance for fiscal years 1999 and 2000. We examined how the centers' responsibilities have changed or increased since they were established and how the distribution of human capital resources among the centers compared with each center's workload and performance. We reviewed the results of quality management reviews that HUD conducted at various field offices in fiscal year 2000. We focused on observations related to the centers' use and supervision of field office staff. Finally, to obtain the views of HUD clients and customers regarding the centers' overall performance and the quality of the services they provide, we interviewed representatives of the Mortgage Bankers Association and the National Association of Homebuilders.

To examine the training provided to the homeownership centers' staff, we reviewed HUD's 2020 plan and supporting documents to determine the amount of training envisioned for the four centers. We interviewed officials from HUD's Training Academy and Office of Housing and analyzed data provided by both offices to determine the amount of single-family program training requested and actually provided to the centers in fiscal years 1999 and 2000. We also interviewed Office of Single Family Housing officials to determine how they assess the training needs at the centers and their views regarding establishing a training curriculum. To determine how the training provided to the centers' staff has impacted center operations, we interviewed the director and division heads at each of the four centers regarding the training they desired for their staff. We also reviewed the results of our telephone survey of HUD managers conducted in September and October 2000, as part of the Performance and Accountability Series, for information regarding the views of center management on the training needs of center staff. Finally, we obtained and analyzed documents that identified the training requested by the centers and training provided by the centers to its staff in fiscal year 2000.

To examine the homeownership centers' oversight of their contractors, we first reviewed HUD's 2020 plan and supporting documents to determine the extent to which HUD planned to use contractors at the centers. We then determined the actual extent of contract support for the centers. Specifically, we (1) interviewed division heads and contracting personnel at the centers and reviewed contracts and other documents to identify those day-to-day center activities performed by center staff and those performed by contractors and (2) analyzed contract obligation data from the HUD Procurement System and developed information on the total dollar value of single-family contract obligations for each center for fiscal years 1999 and 2000. (See app. II for a detailed discussion of our contracting analysis and its results.) Finally, to determine how well the centers have monitored their contractors, we reviewed reports on our prior work at the centers involving HUD's oversight of appraisers and lenders and its experiences with management and marketing contractors and similar reports issued by HUD's Inspector General.

To determine what planning tools HUD is using to target the centers' resources effectively, we interviewed HUD officials and reviewed documents outlining HUD's overall strategic, workforce, succession, and human capital planning activities. Specifically, we reviewed HUD's most recent strategic plan to determine which of the Department's strategic goals and objectives pertained to the centers. We interviewed HUD officials regarding the Department's progress in implementing a resource estimation and allocation process developed by the National Academy of Public Administration, and reviewed the preliminary results of the Department's implementation of the resource estimation process at the homeownership centers. We also interviewed HUD officials regarding their use of our human capital checklist and reviewed HUD's succession planning documents.

We performed our work from July 2000 through April 2001 in accordance with generally accepted government auditing standards.

Appendix II: Single-Family Contract Obligations for Fiscal Years 1999 and 2000

In response to our request for the dollar value of contracts obligated by the homeownership centers in fiscal years 1999 and 2000, the Department of Housing and Urban Development (HUD) provided us with data files that listed the single-family funded contract actions for each fiscal year by homeownership center. There were about 100 single-family funded contract actions in each fiscal year that were not identified with a specific homeownership center and were provided separately. To create these files, HUD initially exported from the HUD Procurement System all the contract actions funded by the Office of Housing in fiscal years 1999 and 2000. HUD then used three appropriation accounts to limit the contract actions to only those that funded single-family activities.

Despite HUD's attempts to limit the contract actions it provided to single-family activities, our initial analysis showed that HUD's files included contract actions for multifamily activities. To eliminate these actions from our analysis, we initially reviewed the customer office codes provided us by HUD to identify those offices that would likely award single-family contracts. We matched this list of customer service codes with those codes for all the contract actions and kept only those contract actions that were found in the customer code list. We grouped the contract actions by contract number and summed up the obligated dollar amounts for each contract for fiscal years 1999 and 2000. We then matched the contracts to HUD files that contained contract service type codes, and categorized the information by contract dollars obligated for each contract service type for the 2 fiscal years. We assessed the integrity of the data through electronic testing and working closely with the agency official who provided the data, and determined that the data were reliable enough for the purposes of this report.

Our analysis showed that the Department obligated $458 million and $390 million, respectively, for single-family contract support in fiscal years 1999 and 2000. Tables 5 and 6, respectively, show the single-family contract obligations for fiscal years 1999 and 2000 for each homeownership center and nationally, and the single-family contract obligations, by contract service types, for each of the 2 fiscal years.

Table 5: Single-Family Contract Obligations for Each Homeownership Center and Nationally, Fiscal Years 1999 and 2000

Center	Fiscal year 1999	Fiscal year 2000
Atlanta	$84,509,231	$32,716,465
Denver	28,010,332	13,309,139
Philadelphia	97,421,078	42,274,098
Santa Ana	93,429,420	19,679,676
National	154,611,056	282,289,978
Total	**$457,981,117**	**$390,269,356**

Source: GAO's analysis of data from the HUD Procurement System.

Table 6: Single-Family Contract Obligations by Contract Service Type, Fiscal Years 1999 and 2000

Service Type	Fiscal year 1999 total	Fiscal year 2000 total
Management and marketing	$276,111,341	$188,435,053
Closing agents	12,813,536	19,190,814
Insurance endorsements	1,968,517	2,929,750
Technical reviews	2,019,721	2,925,752
Single-family inspections	1,977,653	3,718,277
Architect and engineering reviews	226,026	0
Administrative support	367,028	81,600
Real estate asset management	34,295,569	5,107,590
Real estate asset management monitoring	987,628	469,000
File reviews	3,001,262	10,271,838
Single-family appraisals	4,484,921	1,117,198
Field reviews of appraisals	4,586,638	5,895,980
Other appraisals	2,702,497	(320,052)
Marketing/advertising	252,458	136,339
Construction/repair	653,099	1,308,871
Defective paint services	2,229,931	3,134,326
Mortgage credit	116,998	123,957
Credit reports	(61,102)	2,211
Housekeeping services	422,352	1,242
Housing support	107,840	25,234
Servicing reviews	1,434,827	0
Management and marketing voucher reviews	0	1,485,356
Legal services	52,500	626,500
Other[a]	24,187,885	9,509,709
Miscellaneous[b]	113,510	22,044
Service type not listed[c]	82,928,482	134,070,767
Total	**$457,981,117**	**$390,269,356**

Note: Figures in parentheses indicate deobligations or amounts that contract obligations were reduced.

[a]This category includes contract actions for such items as fees for registration, advertising, promotional items, and other expenses for housing-related exhibits, fairs, shows, and other events; structural analysis of experimental housing and other properties; demolition of properties and removal of debris; monitoring of nonprofit organizations; and supplies.

[b]This category includes contract obligations for the following service-type categories: cost analyses, deeds-in-lieu, exclusive listings, foreclosure services, repair services, space rentals, and title services.

[c]We could not determine the service type for these contract actions either because the service type field was blank in the HUD Procurement System or HUD did not provide the data we needed to determine the service type.

Source: GAO's analysis of data from the HUD Procurement System.

Appendix III: GAO's Human Capital Framework

It is important for agencies to focus on human capital as a strategic asset. Agencies can begin by assessing how well their existing human capital approaches support their missions, goals, and other organizational needs. A useful assessment tool is our human capital framework, which identifies a number of human capital elements and underlying values that are common to high-performing organizations. This framework is shown in table 7 and also presented in *Human Capital: A Self-Assessment Checklist for Agency Leaders*.[1]

Table 7: GAO's Human Capital Framework

Strategic Planning	Establish the agency's mission, vision for the future, core values, goals and objectives, and strategies. • Shared vision • Human capital focus
Organizational Alignment	Integrate human capital strategies with the agency's core business practices. • Improving workforce planning • Integrating the human resources function
Leadership	Foster a committed leadership team and provide for reasonable continuity through succession planning. • Defining leadership • Building teamwork and communications • Ensuring continuity
Talent	Recruit, hire, develop, and retain employees with the skills needed for mission accomplishment. • Recruiting and hiring • Training and professional development • Workforce deployment • Compensation • Employee-friendly workplace
Performance Culture	Empower and motivate employees while ensuring accountability and fairness in the workplace. • Performance management • Performance incentives • Continuous learning and improvement • Managers and supervisors • Job processes, tools, and mission support • Information technology • Inclusiveness • Employee and labor relations

Source: GAO.

[1] *Human Capital: A Self-Assessment Checklist for Agency Leaders* (GAO/OCG-00-14G, September 2000, Version 1).

The self-assessment checklist is a simple diagnostic tool for agency leaders, rather than a methodologically rigorous evaluation. It is meant simply to capture senior leaders' informed views of their agencies' human capital policies and practices. Each of the questions in the checklist is followed by suggested sources of information or indicators; not every agency will have these sources on hand, and most of the conclusions that users arrive at can be expected to be somewhat subjective. We hope that using the self-assessment checklist will allow federal agencies to quickly determine whether their approach to human capital supports their vision of who they are and what they want to accomplish, and to identify those aspects of their "people policies" that are in particular need of attention. In addition, even the most rudimentary review by agencies of their human capital systems should help them pinpoint the strengths and weaknesses of their human capital performance measures and data systems. Effective performance management requires fact-based decisionmaking; one of the first requirements is relevant and reliable data.

Appendix IV: Comments From the Department of Housing and Urban Development

Note: GAO comments supplementing those in the report text appear at the end of this appendix.

U. S. Department of Housing and Urban Development
Washington, D.C. 20410-8000

June 22, 2001

OFFICE OF THE ASSISTANT SECRETARY
FOR HOUSING-FEDERAL HOUSING COMMISSIONER

Mr. Stanley J. Czerwinski
Director, Physical Infrastructure Issues
United States General Accounting Office
Washington, DC 20548

Dear Mr. Czerwinski:

Thank you for the opportunity to provide comments on the draft report: Single Family Housing: Better Strategic Human Capital Management Needed at HUD's Homeownership Centers (job code 385860). The Office of Housing recognizes the significance of each of the concerns and recommendations delineated in the draft. We also recognize that the human capital planning and management problems cited are not specific to the Homeownership Centers but typify problems that affect the entire Department. As such, issues raised by the draft report are being addressed in the overall context of the Department's resource management efforts.

In a memorandum dated May 17, 2001, Secretary Martinez made a commitment to the development of a viable and realistic human resource planning and management strategy for the Department. HUD is currently implementing that strategy, known as the Resource Estimation and Allocation Process or REAP, and the Office of Housing is working with other Departmental entities to address the concerns and recommendations raised in the draft report, within that framework.

In this response, I will discuss the steps that we and the rest of the Department are taking to address the specific recommendations made in your draft report. I will then conclude with comments on several narrower issues raised in the report.

Responses to Recommendations:

- **Recommendation: Assess the deployment of the centers' workforce in light of current organizational needs, develop a plan for locating center staff where they are needed, and deploy the staff accordingly.**

Response: This basic issue is one of the resource allocation concerns now being addressed as part of REAP. As part of that process, the Office of Single Family Housing is proposing to reduce the number of outstationed staff through attrition, because of relocation cost considerations. As vacancies occur, the personnel ceiling for those vacant positions will be reassigned to the HOCs. Preliminary study results from REAP (along with other workforce analysis and planning efforts) will be used to develop this proposal.

In addition, Single Family is developing a plan to redistribute the workload more effectively across the four HOCs. Some features of the plan are as follows:

1. Identification of the major factors (including economic and market factors) that contribute to workload imbalances across HOCs;
2. Development of a process for redistributing the workload to better match staffing capacity; and
3. Flexible staffing approaches to address anticipated and unanticipated staffing shortages.

- **Recommendation: Develop a training curriculum for center staff that ensures that available training funds are allocated and used to develop skills that the staff need to perform their responsibilities.**

Response: Both Secretary Martinez and Deputy Secretary Jackson have stated that it is their intention to make training a priority for the Department. This commitment includes increased funding and a stable training budget. As a consequence of the renewed emphasis on training, the HUD Training Academy has begun to provide assistance to program organizations, including the Office of Housing, in identifying core skills requirements for each major occupational series. Program Training Coordinators will then assist in the development of a training curriculum that addresses those skills requirements both immediately and for the future.

- **Recommendation: Use tools such as our human capital self-assessment checklist to develop a strategic human capital management plan for the homeownership centers that considers all areas of human capital management, including the size of the workforce, workforce deployment, training and oversight of contractors.**

Response: We appreciate GAO's recognition of the steps that the Department has taken in the development of its human capital planning and management strategy. As the report notes, we have begun to use GAO's human capital self-assessment checklist, and we have incorporated risk factors in our monitoring of lenders, appraisers and contractors. Like GAO, we regard these as "steps in the right direction." We also agree that there is room for improvement. To target departmental resources more effectively, the GAO human capital self-assessment checklist, and REAP, are being used in conjunction with HUD's strategic plan. These efforts are being bolstered by: (1) the use of HUD's succession plan that will enable the agency to deal more effectively with the large percentage of staff that is expected to retire in the near future, (2) the development of agency staffing plans, as required by the 2001 appropriation language, and (3) the performance of a workforce analysis to comply with OMB Bulletin No. 01-07, Workforce Planning and Restructuring. HUD's strategic plan has identified goals and objectives for the single-family program and the homeownership centers. In addition, the preliminary REAP study which provides staffing allocation guidelines for the Single Family area has been completed. The results of the study are being evaluated in conjunction with a larger effort being undertaken to develop a comprehensive plan for balancing workload and staffing among the HOCs and for assuring that staff have the requisite skills for meeting the centers' current and future workforce needs.

This recommendation concludes with a specific mention of the oversight of contractors as a human capital challenge. Single Family Housing has taken a number of actions since the GAO report (Single Family Housing: Stronger Oversight of FHA Lenders Could Reduce HUD Insurance Risk) was issued in April 2000. Staff at headquarters and the four HOCs have worked closely together to develop new standards to select, monitor and evaluate technical review contractors. These new standards were incorporated into a revised Statement of Work (SOW) that each HOC is now utilizing to award new contracts for the processing of post-endorsement technical reviews. The Philadelphia and Santa Ana Homeownership Centers have already awarded new contracts utilizing this revised SOW. The Denver and Atlanta HOCs will be pursuing contracts utilizing this SOW when their existing contracts expire. The new standards outlined in the SOW and described below, will lead to a more uniform approach to contractor oversight across the HOCs, greater accountability on the part of the contractors, and a higher quality of work product.

The new SOW has both a contractor Quality Control requirement as well as a rather thorough description of the Quality Assurance procedures that the HOC will follow in monitoring the overall quality of the contractors work.

At a minimum, the contractor's quality control program includes the review of 10% of all the cases completed by the contractor each month. This review is performed by an experienced Underwriter not involved in the original review of the case. Each month the contractor must provide us with a completed Quality Review Sheet listing all of the cases that were reviewed for quality control purposes. For each case reviewed, a statement must be made by the QC reviewer(s) as to whether they agree or disagree with the rating given by the original reviewer and any changes or comments. This QC report must be signed and dated by the Underwriter who completed each QC review.

The Department's Quality Assurance plan establishes an Acceptable Performance Level (APL) that the contractor must meet each month. Failure to meet this APL standard (which states that the contractor shall deliver 90% of their completed reviews error-free) will result in monetary penalties (the invoice is reduced by 1%

for each percentage point that the contractor's actual performance falls below 90%). For the purposes of this contract, an error is defined as follows:

1. HUD staff changes a rating of poor to either fair or good
2. HUD staff changes a rating of fair or good to poor
3. HUD staff does not change a rating, but identifies a mistake or omission which, in the absence of any other factors supporting a contractor's rating, would have justified a change in rating

Our staff randomly selects a minimum of 5% of the contractor's completed case reviews each month for in-depth Quality Assurance reviews. The results of our QA reviews are then entered into the Underwriting Reports System (URS) and the Government Technical Representatives and Government Technical Monitors utilize these reports to assess the overall quality of the contractor's work. In this regard, every two months a performance review meeting is conducted with representatives of the contractor to discuss their performance and appropriate actions are taken if their performance fails to improve.

Subsequent to awarding this contract, the Philadelphia and Santa Ana HOC staff conducted training sessions with their respective contractors on Direct Endorsement procedures, provisions of these contractors, the use and completion of the Underwriting Reports and ratings, electronic forms and transmission and Mortgage Credit issues.

Additional Comments

See comment 1.

On page 16, the report states that the distribution of staff across the four HOCs does not reflect their current workload. This statement is correct for the two measures of workload used in the report - endorsements processed and REO - but the HOCs' workload has many other dimensions. For instance, the Atlanta HOC completed 269 mortgagee reviews in FY 2000, while each of the other three HOCs completed between 225 and 230. In addition, of course, the amount of time and resources needed will vary among mortgagee reviews, as well as among other types of activities. There are also activities unique to specific HOCs. In FY 2000, the State of Texas revised its laws to permit reverse mortgages. Texas was the only state which did not permit lenders and homeowners to enter into reverse mortgage arrangements. The Denver HOC worked closely with the mortgage industry, with the state legislature, and with HUD's headquarters to ensure that FHA's HECM loans would be available in Texas. It also worked with the American Association of Retired Persons and with Texas lenders to identify housing counseling agencies that could provide counseling to elderly mortgagors on this new option. No other HOC has had to devote such resources to this program since the HOCs were established. The HOC has received many technical and informational inquiries and held an information session with lenders in San Antonio on the program. The HOC has also provided lenders with the information and requirements

for processing these HECM loans. These efforts have facilitated a rapid beginning for HECMs in Texas. In the first half of the current fiscal year, the HOC has endorsed 73 HECMs; it has approximately 500 in the origination pipeline and expects the workload to increase as more lenders start offering the program.
This example also illustrates the difficulty of quantifying important components of the HOCs' workload.

There are always variances in workload between HOCs. They reflect the impact that market conditions and program changes can have on HOC staffing considerations, even in a short period of time. Such changes support the periodic evaluation and redistribution of workload among the HOCs, as explained above.

See comment 2.

On page 19, the report cites property management issues related to the Philadelphia HOC REO operations. These issues include snow removal and lead-based paint abatement. Such activities most heavily affect the Management and Marketing contractors rather than HOC staff resources. While weather conditions and aged property do influence net recoveries on HUD property sales, they have less impact on HOC staffing. Hiring of sub-contractors for specialized work is primarily the responsibility of the M&M contractor. Further, these conditions are not unique to the Philadelphia HOC, and new contracting actions most heavily affect Office of Procurement and Contracts staff, which are not under the direction of the HOC.

See comment 3.

On page 25, the report notes that increased contracting has placed increased demands on contract monitoring resources. In the property disposition area, staff which had at one time served as both contractor monitors and operations specialists are now fully dedicated to contract oversight. Modifications to contract controls, most notably to strengthen risk assessments, have challenged staff to learn and keep pace with procedural changes, and the Officer and Teacher Next Door programs were suspended in part to provide clearer direction and staff training on these new programs. As the report notes, to evaluate the management and marketing contractor performance, property disposition staff do use other contractors to gather empirical evidence on property conditions. It is HUD staff, not third party contractors, who analyze information from various sources, monitor contract compliance, and initiate requirements for corrective actions. This use of third party contracts to gather evidence for staff evaluation of contract performance helps the Department maximize use of staff program expertise, and underlines the emphasis being placed on controls over outsourced contract services.

See comment 4.

On page 29, the report relates poor conditions of HUD properties to staffing shortages, citing lack of contractor oversight. In fact, property conditions have been a recurring problem cited in OIG audits which preceded the establishment of the Homeownership Centers. The Department has improved controls in this area, but substantive program changes will be required in order to avoid the inherent risk associated with disposition of foreclosed properties. Towards this end, the Department is developing regulations which authorize the acquisition of defaulted mortgages prior to foreclosure, enabling the Department to manage and sell mortgage notes rather than real

6

property. This combination of more efficient use of existing resources and more effective program guidelines form a practical strategy for improving management of staff resources.

Thank you once again for the opportunity comment on the draft report. If you have any questions please contact, Vernice Buell of my staff, on (202)708-2733.

Sincerely,

John C. Weicher

John C. Weicher
Assistant Secretary for Housing-
Federal Housing Commissioner

GAO Comments

1. We recognize that the centers have many responsibilities, some of which may have a greater impact on the workload at one of the centers than that at the other centers. However, we specifically mentioned mortgage insurance endorsements and the disposition of single-family acquired properties because they are the centers' two major single-family program responsibilities and workload areas. As a result, we made no change to the report's discussion of this issue.

2. While cold weather and aged properties are not unique to the Philadelphia center, center managers told us that having a large number of older properties and properties in cold areas has added to their property disposition workload. We revised our report to clarify this point. In addition, our analysis of HUD’s obligations for single-family contracts in fiscal years 1999 and 2000 showed over $5 million in contracts for defective paint services—all by the Philadelphia center. We believe that overseeing these contractors is ultimately the responsibility of property disposition staff at the Philadelphia center and adds to their workload. As a result, we made no further revisions to the report.

3. The report recognizes that, while third-party contractors gather empirical data on property conditions, it is center staff who analyze the data they gather and monitor contract compliance. Therefore, we feel that no additional discussion is needed.

4. This is a reference to a HUD Inspector General report that we quoted, which relates the poor conditions of HUD properties to a lack of contract oversight resulting from staffing shortages at the centers. We made no revisions to the report in response to this comment.

Appendix V: GAO Contacts and Staff Acknowledgments

GAO Contacts

Stanley Czerwinski, (202) 512-2834

Paul Schmidt, (312) 220-7681

Acknowledgments

In addition to those named above, Daniel Gage, Cathy Hurley, Barbara Johnson, John McGrail, Stanley Ritchick, Stewart Seman, and Paige Smith made key contributions to this report.

Related GAO Products

Single-Family Housing

Single-Family Housing: Stronger Oversight of FHA Lenders Could Reduce HUD's Insurance Risk (GAO/T-RCED-00-213, June 29, 2000).

Single-Family Housing: Stronger Measures Needed to Encourage Better Performance by Management and Marketing Contractors (GAO/T-RCED-00-180, May 16, 2000).

Single-Family Housing: Stronger Measures Needed to Encourage Better Performance by Management and Marketing Contractors (GAO/RCED-00-117, May 12, 2000).

Single-Family Housing: Stronger Oversight of FHA Lenders Could Reduce HUD's Insurance Risk (GAO/RCED-00-112, Apr. 28, 2000).

Homeownership: Problems Persist With HUD's 203(k) Home Rehabilitation Loan Program (GAO/RCED-99-124, June 14, 1999).

Single-Family Housing: Weaknesses in HUD's Oversight of the FHA Appraisal Process (GAO/RCED-99-72, Apr. 16, 1999).

Homeownership: Results of and Challenges Faced by FHA's Single-Family Mortgage Insurance Program (GAO/T-RCED-99-133, Mar. 25, 1999).

Homeownership: Management Challenges Facing FHA's Single-Family Housing Operations (GAO/T-RCED-98-121, Apr. 1, 1998).

HUD Management

Major Management Challenges and Program Risks: Department of Housing and Urban Development (GAO-01-248, January 2001).

HUD Management: Information on HUD's 2020 Management Reform Plan (GAO/RCED-98-86, Mar. 20, 1998).

Human Capital

Human Capital: Meeting the Governmentwide High-Risk Challenge (GAO-01-357T, Feb. 1, 2001).

Major Management Challenges and Program Risks: A Governmentwide Perspective (GAO-01-241, January 2001).

Human Capital, A Self-Assessment Checklist for Agency Leaders (GAO/OCG-00-14G, September 2000, Version 1).

Human Capital: Managing Human Capital in the 21st Century (GAO/T-GGD-00-77, Mar. 9, 2000).

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Federal Workforce: Payroll and Human Capital Challenges During Downsizing (GAO/GGD-99-57, Aug. 13, 1999).

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