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STATEMENT OF
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BEFORE THE

HOUSE SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

ON

THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT'S
PROPOSED FIELD OFFICE REORGANIZATION

Chairman and Members of the Subcommittee:

We are pleased to be here today to discuss our views of the Department of Housing and Urban Development's (HUD's) proposed field reorganization. HUD announced its plans to reorganize its field structure in a February 22, 1983, Federal Register notice as required by section 7(p) of the Department of Housing and Urban Development Act, as amended. The Federal Register notice included a cost-benefit analysis showing an estimated \$30.8 million net savings over 2 years and an explanation as to why HUD believes the reorganization will have no measurable impact on any local economies and only minimal impact on the quality of services to affected HUD clients. HUD has not yet implemented the reorganization.

We believe HUD needs to reevaluate its proposed reorganization for several reasons:



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1. HUD's cost-benefit analysis is based on questionable assumptions which may overstate the true savings to the Government.
2. HUD has not determined the potential impact on the quality of services to clientele.
3. HUD is planning to reorganize in an atmosphere of major program changes and future housing policy uncertainties.
4. Proposed changes may not address management problems associated with HUD's complex organizational structure.

BACKGROUND

HUD's present field structure includes two levels of responsibilities and functions. There are 10 regional offices which in turn supervise 90 field offices by monitoring and evaluating overall program performance and general management of resources. Field offices are currently designated as either area offices, service offices, multifamily service offices, or valuation and endorsement stations. Their responsibility is to implement HUD's various programs.

The proposed reorganization essentially involves

- consolidating 9 of 10 regional offices with nine area offices located in the same city, or close by, as in the case of Dallas and Fort Worth (HUD's office in Denver is already consolidated);
- reducing the number of full-time field staff;
- consolidating housing operations in offices which currently have separate single-family and multifamily operations; and

--transferring certain functions such as fair housing and equal opportunity activities from area offices to regional offices.

HUD stated that it is proposing these changes in response to budget constraints and program initiatives. HUD wants to produce more with fewer resources and eliminate waste and mismanagement.

Our views on HUD's proposed reorganization are based on:

- an analysis of the reasonableness of assumptions underlying HUD's national cost-benefit analysis,
- two recently issued reports on the costs and benefits of consolidating the Dallas/Fort Worth (GAO/RCED-83-155, May 19, 1983) and the Knoxville/Nashville (GAO/RCED-83-100, February 25, 1983) offices, and
- other work we have done relating to HUD's management and organization.

HUD COST-BENEFIT ANALYSIS
OVERSTATES SAVINGS AND
UNDERSTATES COSTS

In the Federal Register notice, HUD estimated that over a 2-year period it would save \$36.1 million and incur additional costs of \$5.3 million for a net savings of \$30.8 million if the reorganization were to be implemented as proposed.

It is important to note that the costs and savings projected for any proposed action such as HUD's field reorganization are only estimates of what is expected to occur given the validity and occurrence of certain assumptions. Precise figures can be determined only after the action is implemented and in place for a reasonable period of time.

Assumptions and/or methodologies used by HUD in developing its cost-benefit analysis are questionable and as a result, the \$30.8 million net savings estimate may overstate the true savings to the Government. Adding to this uncertainty is the fact that HUD has not distinguished between the costs and savings which are directly attributable to the proposed reorganization and those that are attributable to other factors, such as reduced workloads or changing program initiatives, and which could have been realized without a reorganization.

Estimated savings overstated

HUD attributes \$34 million dollars of the \$36.1 million estimated savings to reduced staffing levels. It attributes the remainder--\$2.1 million--to the release of excess office space resulting from the reduced staffing levels. We believe both of these estimates are overstated because the Department calculated its expected savings on the basis of reductions from its authorized staffing ceiling rather than from the number of personnel actually on-board prior to the reorganization.

In calculating the \$34.0 million in personnel savings--\$15.2 million for fiscal year 1983 and \$18.8 million for fiscal year 1984--HUD compared the 9,858 full-time, permanent field staff originally authorized in its fiscal year 1983 budget with the 9,231 HUD now expects to be on-board after the reorganization is fully implemented. To this reduction of 627 field staff, HUD then applied an average field salary/benefit estimate of \$30,000 per employee to arrive at its personnel savings. Fiscal year

1983 savings were based on a 505 staff-year reduction because of the mid-year implementation of the reorganization.

Although we believe the proposed reorganization does offer opportunities to cut personnel costs and reduce overhead, calculating savings on the basis of reductions from an authorized staff ceiling which HUD never reached nor funded during the year, rather than on the number of personnel who are to be on board prior to the reorganization, overstates the savings attributable to the reorganization.

As the result of hiring freezes, HUD has been reducing its field staff for the past several years. For example, the number of field personnel who were actually on board at fiscal year-end 1979 was 11,833. By the end of fiscal year 1982, this number fell to 9,736. As of April 30, 1983, only 9,348 field staff were actually on board. Further, HUD noted in the Federal Register notice that it expected to have only about 9,307 field staff on board on June 15, 1983, the assumed date of the reorganization's implementation.

If HUD had computed personnel savings based on reducing field staff from an estimated on-board of 9,307 right before the reorganization to the 9,231 expected following the reorganization--a reduction of 76 people--and used its \$30,000 annual salary/benefit estimate, HUD's annual savings would be only \$2.3 million or \$4.6 million for 2 years. This is substantially less than the \$34 million cited by HUD in the Federal Register notice. Savings would accrue beyond the 2-year period

used by HUD, as long as HUD did not replace the staff terminated by the reorganization. (Any cost or savings projections exceeding 3 years should be appropriately discounted.)

In addition to personnel savings, the cost-benefit analysis estimated savings of \$2.1 million over the next 2 years for reduced office space requirements. HUD based its savings estimate on a 627 field staff reduction and further assumed that each field employee occupies an average of 160 square feet of office space and that the average annual cost per square foot is \$10.60.

We believe the Department's \$2.1 million estimate for space savings is overstated. Similar to our views on personnel savings, calculating space savings on the basis of the number of personnel actually on-board prior to the reorganization rather than on authorized staffing levels would have significantly reduced the savings estimate.

Other considerations that may further reduce potential space savings to the Government are the costs involved in breaking existing leases and the difficulty of packaging small amounts of released space into viable, rentable office space. For example, HUD's office space in Dallas is under lease until December 1986 and could remain vacant for at least 6 months awaiting a new tenant if HUD's Dallas staff were to move to Fort Worth. As a result, the Government could incur lease expenses of about \$349,000 while the space in Dallas remains unoccupied.

Estimated costs understated

HUD estimated that the reorganization will result in additional costs of \$5.3 million over the next 2 years. We believe this estimate may be low.

In the Federal Register, HUD recognized that its largest cost--\$2 million--will result from employee relocations. Based on the two reports we recently issued on the effects of the proposed reorganization in Tennessee and Texas, we concluded that HUD may have underestimated the number of employees who would be willing to relocate. In Tennessee, we estimated that relocating employees could cost about \$146,000 more than HUD had estimated. In Texas, we estimated that relocation costs could be about \$400,000 more than HUD's estimate.

In the Federal Register, HUD also indicated that travel costs will permanently increase by \$100,000 annually as a result the reorganization. Based on estimates HUD's regional offices provided us, this figure may be low.

For example, Boston Regional Office officials estimate that their travel expenses will increase by about \$50,000 due to the proposed reorganization. Also, Atlanta Regional Office officials estimated that, for the Tennessee consolidation alone, their travel expenses would increase by about \$33,000 annually--a figure we reported as being low given existing workload. These two estimates of \$83,000 account for 83 percent of HUD's total estimate. Since HUD will incur additional travel costs at other locations due to the reorganization, it appears that HUD underestimated the increased travel costs.

HUD officials were not able to break down the estimated costs or savings which are directly attributable to the proposed

field reorganization and those which would occur independent of a reorganization. Factors such as reducing workloads and changing program initiatives have caused significant changes in HUD staffing over the past several years. In addition, although HUD's budget requests for fiscal years 1983 and 1984 have decreased, HUD was unable to directly link its \$30.8 million savings estimate to its budget requests.

IMPACT ON THE QUALITY OF SERVICE

Some HUD area office and headquarters officials and client representatives have voiced concerns about possible impacts of the reorganization on program operations and the quality of service delivery. HUD's regional administrators on the other hand generally stated that the reorganization would have little, if any, impact on the quality of HUD's services. We would stress, however, that the impact on service delivery cannot be precisely determined because HUD (1) has not yet finalized an implementation plan which explains how HUD will delineate lines of authority and accountability among headquarters and field managers and (2) has not systematically analyzed nor attempted to measure the anticipated impact on clients.

IMPACT OF CHANGING PROGRAM INITIATIVES

The current reorganization proposal is being initiated to attain overall reductions in field staff, to strengthen the role of regional administrators, and to simplify the current organizational structure. It comes at a time, however, when HUD programs and direction are changing and when the future organizational

structure and required size of its field operations are uncertain. During our discussions with regional and headquarters officials, we were told that additional organizational changes may be needed given HUD's changing programs. In this regard, regional officials advised us that further consolidation in such areas as multifamily operations and community planning and development may also be desirable. This is consistent with HUD's efforts (1) to reduce its activity in housing production programs such as rehabilitation and construction, and in emphasizing housing assistance through a housing payment certificate program to be administered by local public housing agencies, and (2) to replace most rehabilitation programs with State and locally administered block grants for rental housing rehabilitation.

Conversely, the Congress is considering actions which, if implemented, would likely increase the workload of HUD's field staffs. The Congress is considering (1) tightening the strings on the Community Development Block Grant Program to require that HUD better assure that lower income persons are the program's primary beneficiaries and (2) creating a new program to help unemployed homeowners pay delinquent mortgage bills.

We believe the potential for changes in HUD's program delivery raises basic questions as to the need for, and timing of, reorganizing HUD field offices in face of uncertainty. In this regard, we found no evidence that HUD considered the impact of changing initiatives or developed a plan to encompass future changes in its proposal to reorganize nationwide.

MANAGEMENT PROBLEMS MAY NOT
BE ADEQUATELY ADDRESSED

HUD's three-tiered structure--headquarters, regional offices, and area offices (and smaller field offices)--is a complex arrangement which may contribute to poor accountability, unclear lines of authority, and ineffective communication. It is uncertain whether the proposed reorganization will adequately address these three management issues.

Currently, HUD's three-tiered structure begins with headquarters, which makes, interprets and directs policy and sets standards and procedures. HUD's program assistant secretaries, who are responsible to the Secretary, manage this top tier. The second tier, regional offices, is an intermediate structure between headquarters and the area offices. Regional offices, headed by politically appointed regional administrators, supervise and evaluate the area offices. Since HUD's last major field reorganization in 1977, regional offices generally do not become involved in the day-to-day aspects of delivering HUD programs. Program delivery occurs at the third tier--area offices--headed by career civil servants.

Delivery of housing programs illustrates the complexity of this structure. Program authority flows from the Assistant Secretary for Housing who is responsible for providing technical support and guidance to the field offices. Regional offices, which generally have no housing program responsibilities, oversee the management and administrative operations of area offices. Thus, dual demands are placed on area offices--programmatic

demands by counterparts in the central office and administrative demands by regional offices. Additionally, regional administrators report to a Deputy Under Secretary for Field Coordination who, unlike the Assistant Secretary for Housing, does not have program responsibility. The Deputy's role of coordination and liaison establishes another line in HUD's complex organizational structure.

As we see it, there are a number of questions associated with HUD's three-tiered structure which remain unresolved:

- What management processes will articulate Secretarial goals and provide timely and consistent headquarters directives to field entities? What controls are needed to ensure that the process is working?
- Where authority is delegated, does accountability exist?
- Do dual lines of command from headquarters and regional offices to area offices contribute to confusion and dilution of responsibility?
- Can decisionmaking authority be effectively delegated to area offices within a field structure which has regional offices in the management chain?

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In summary, HUD is proposing a major reorganization in an atmosphere of uncertain program and budgetary direction. The proposal itself is not supported by an adequate cost-benefit analysis and does not appear to address management issues associated with HUD's three-tiered structure. Further, HUD has not

determined the potential impact on the quality of service to
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This completes my prepared statement. My colleagues and I
would be happy to respond to any questions.