

**STATEMENT OF D. MICHAEL BEARD,
DISTRICT INSPECTOR GENERAL FOR AUDIT
SOUTHWEST DISTRICT
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
Thursday, February 24, 2000
BEFORE THE SUBCOMMITTEE ON
HOUSING AND TRANSPORTATION
UNITED STATES SENATE**

Chairman Allard, Ranking Member Kerry, and other Subcommittee members, I appreciate the opportunity to appear before you today to discuss the results of our audit on Community Builders at the Department of Housing and Urban Development. I am accompanied today by Kathryn Kuhl-Inclan, Assistant Inspector General for Audit, and William Nixon, Assistant Southwest District Inspector General for Audit.

As part of the Office of Inspector General's ongoing assessment of HUD's 2020 Management Reform, we issued a nationwide report on Community Builders on September 30, 1999. The report also responded to requests from Members of Congress and numerous complaints. Our audit evaluated Community Builder hiring practices, reviewed their assigned duties and responsibilities, and examined their impact on other organizations within HUD. The audit was conducted in Headquarters and ten field offices. This review was comprehensive. It used nearly 5 years of staff effort to complete and involved the work of 64 auditors. We examined documents, analyzed data, and interviewed more than 130 HUD staff and more than 90 HUD customers. We conducted our audit in accordance with Generally Accepted Government Auditing Standards. These standards relate to the auditors' professional qualifications, the quality of audit effort, and the characteristics of professional and meaningful audit reports.

This audit was highly sensitive because of the important role of Community Builders in the 2020 Management Reform. We experienced difficulty in obtaining timely information from HUD. Senior management provided employees a list of "questions and answers" to be used if they were interviewed in the course of the audit. Senior management also requested we go through certain points of contact for our interviews and documents. In some of our interviews, employees requested confidentiality for fear of reprisal. These limitations made this audit more difficult than most. Accordingly, we reported a scope limitation, which we rarely use.

Background on the Community Builders

HUD created the Community Builder position attempting to reorganize to a more community-focused agency. The idea is an outgrowth of the 1993-94 *National Performance Review (NPR)* and the July 1994 NAPA report to HUD and Congress. NAPA suggested HUD: "*Select, through a*

merit promotion process, staff whose careers demonstrate they can work well with community leaders and are able to work comfortably across the complexity of HUD's programs." In 1996, Secretary Cisneros referred to community building saying: "Selected HUD personnel will receive intensive training to convert them from administrators performing paperwork processing functions to community-oriented experts who can help communities optimize the necessary layering of local, state, federal and private resources."¹

Secretary Cuomo stated that Community Builder positions would enable HUD to clearly separate the staff function of facilitating community access to HUD programs from the functions of program management and enforcement. He stated that requiring employees to be both facilitators as well as monitors was both inconsistent and contradictory. He proposed the Community Builders would serve as the one-stop customer representative in HUD's 81 field offices to provide assistance and information on economic development, homeownership, public housing, homeless assistance, and HUD's other programs. He also stated the Community Builders would give HUD a customer relations function it lacked. The Secretary stated no one had written letters or sent telegrams protesting proposals to eliminate HUD because it lacked a customer relations function. At the time of our audit, HUD had over 770 Community Builders, of which some 400 were Community Builder Fellows with term appointments.

Audit Results

Our audit generally found problems with the Community Builder concept, its implementation, and its impact on HUD. While we did see some positive results, mostly from the 85 Community Builder Specialists, we concluded that HUD cannot afford the Community Builder concept. Over the last 2 decades, HUD has downsized from 20,000 employees to just over 9,000 employees. During this period, HUD's programs increased. The General Accounting Office placed the Department on its high-risk list because HUD had:

1. Internal control weaknesses such as a lack of necessary data and management processes;
2. Poorly integrated, ineffective, and generally unreliable information and financial management systems;
3. Organizational deficiencies, such as overlapping and ill-defined responsibilities and authorities between its headquarters and field organizations, and a fundamental lack of management accountability and responsibility; and
4. An insufficient mix of staff with the proper skills, hampering the effective monitoring and oversight of HUD's programs and the timely updating of procedures.

¹ Cisneros, Henry C., Secretary Essay 5, *Higher Ground: Faith Communities and Community Building*, February 1996, pp 4-9.

Our audits have also identified similar weaknesses. For example, the 1998 Financial Audit of the Department cited as a material weakness HUD's need to effectively manage staff resources. The audit noted that because of delays in HUD 2020 implementation, most of the expected staffing efficiencies have not been realized. Additionally, we have conducted several audits of programs impacted by HUD's reforms. A common theme in many of these audits is the lack of sufficient resources to effectively manage the programs. While HUD has made strides to correct these problems, the Community Builders do not contribute to resolving any of the above deficiencies. On the contrary, we believe the large number of staff devoted to public relations took away staff resources from important oversight functions. The Community Builders were supposed to separate the outreach and management functions. However, HUD chose an expensive and controversial solution to this alleged problem. Specific findings in our audit follow.

Hiring of Community Builders Was Poorly Planned and Implemented

Prior to implementing the Community Builder concept, HUD did not properly establish the necessity for Community Builders or the level of resources required. In our opinion, the Department misused Schedule A hiring authority and did not adhere to civil service rules, particularly Veterans Preference, when hiring. Further, it dramatically increased its average employee salary expense by hiring Community Builders at the GS-13 to GS-15 level which exceeded the Department's average grade structure.

Rather than targeting staff from within, HUD chose to look to the general public for about 400 Community Builder Fellow positions. HUD says it hired the Community Builder Fellows using a new Schedule A hiring authority. In fact, HUD's actions did not meet the Code of Federal Regulation requirements for Schedule A. In our view, HUD used Schedule A authority because it did not want to hire under civil service rules. The Department has not provided an explanation of how Community Builder Fellows fit the requirements. However, we noted the population the Community Builders came from did not constitute a limited pool, nor did the Community Builders constitute a professional/industry exchange, both of which were suggested OPM reasons for using its Schedule A authority [chart 1]. Further, the Community Builders occupied policy-determining positions, something the Schedule A authority prohibited. In light of the foregoing, we asked Director Lachance of the Office of Personnel Management to conduct a full review of HUD actions. In that referral, we noted HUD:

- Did not establish it faced a limited pool of applicants.
- Did not set up a plan for a cross-fertilization to occur.
- Intended the individuals hired would occupy policy-determining positions (prohibited).
- Conducted full examinations of the applicants (Schedule A anticipates examinations would be impractical).
- Did not establish a need for 400 temporary employees.
- Did not determine needed skills.
- Did not determine needed grade levels.

- Advertised using a GS-13/14/15 career ladder.
- Did not mention Veterans Preference in the advertisement.
- Prepared one best qualified list for all applicants (rather than three separate lists for each grade level).
- Did not document or establish how they determined selectee pay grades.
- Hired at grade levels higher than the Department's norm.
- Hired Schedule A employees to perform functions previously performed by career staff without the required OPM approval.
- Did not use Veterans Preference during the selection process.
- Did not use the proscribed selection process set forth in 5 CFR §302.

In selecting personnel for Community Builders Fellow positions, HUD did not use Veterans Preference and OPM's "rule of three" selection process. Senior management dismissed the failure to follow Veterans Preference and selection rules as "administrative errors." Yet in responding to our report, they said they complied with Veterans Preference and civil service rules. The audit shows they did not. Individuals with veterans status were not notified to include that fact in their applications. However, some did and HUD listed some on the best qualified lists. Scanning those lists, we noted five veterans passed over 12 times – twice (two rounds of selections) [chart 2]. While HUD says it included the 5 and 10 points for those individuals claiming veterans status, they did not. HUD listed the points on the best qualified lists for those veterans it identified, but did not add the points to the veterans' total score. One veteran complained to us HUD listed his preference as 5 points when his application clearly identified his 10-point status. When that veteran complained to HUD, HUD personnel told him in writing HUD did not need to apply Veterans Preference and could choose any of the 41 individuals appearing on the best qualified list at the location for which the veteran applied. This is exactly what HUD did in most locations. In 76 percent of the locations where HUD selected a Community Builder Fellow, it did not adhere to the civil service rule of three [chart 3]. Forty-one percent of the selectees ranked lower than the top 15 individuals appearing on the list. HUD went as far down on some lists as to bypass more than 50 better qualified people. In fact, HUD even selected 56 individuals who should not have made the best qualified lists. These individuals, scored less than HUD's stated minimum points to earn an interview. The selected individuals eventual pay grades were inconsistent with their respective scores on the best qualified lists [chart 4]. The Department could not explain how it determined the pay grades. In view of the foregoing, we asked Director Kaplan of the Office of Special Counsel to investigate prohibited personnel practices.

The Community Builder grade levels exceeded the Department's norm [chart 5]. By hiring at the high grades, the Department violated its National Performance Review (NPR) goal to reduce the number of GS-14s and 15s and created a morale problem with the remainder of its career staff. In compliance with NPR, HUD reduced its GS-14s and 15s to 1,390 using buyouts and retirements. In conflict with its own NPR work, HUD increased the total number of GS-14s and 15s to 1,894 by hiring the Community Builders. Thus, the ratio of GS-14s and 15s to staff deteriorated to 1 to 4 instead of improving to the 1 to 12 NPR goal. To correct the morale problem it had created, HUD advertised 400 more GS-14s and 15s for its non-Community Builder staff, distancing itself further from its NPR goals.

Ethical Misconduct

We reviewed complaints regarding ethical misconduct involving 25 Community Builders. Of these, we considered five valid. One involved false information on a resume, two involved lobbying at the state level, and two involved conflicts of interest. Also, we noted instances of Community Builders participating in activities that would violate Public Law 105-277² and the Hatch Act. For example, HUD used the Community Builders to disseminate the Administration's view of possible negative effects of the proposed Congressional budget for HUD. In September 1999, the Department made "press outreach" on the HUD budget the Community Builders' highest priority. HUD published a propaganda booklet and used meetings, mailings, and phone calls to get it to their customers. We referred these matters to the Office of Special Counsel.

The Community Builders' Value is Minimal

The Community Builders' positive impact on HUD's mission is indeterminable. The Community Builders' purpose includes everything from providing "one-stop customer service" to solving "the toughest economic and social problems facing communities." This visionary mission is not easily measured or realistically accomplished. Accordingly, HUD's Business Operating Plan does not accurately reflect all the Community Builders' activities. Further, most of the Community Builders' goals are activities rather than actual accomplishments. HUD classifies 15 of the Community Builders' 19 goals as activities performed, rather than outcomes measured. Our report cites several of the activity measures used by the Community Builders, such as participating in HUD homeownership fairs. Also, most of the field offices had an inadequate system in place to document and report the Community Builders' activities.

Though most Community Builders claimed to have a positive impact on attaining HUD's goals, only a few provided specific accomplishments. Sixty-two of the 77 Community Builders interviewed stated that they had not been involved in leveraging private funds to be used for HUD programs, an important goal for HUD. Of the 13 who said they had, only three could describe accomplishments in specific terms.

The Community Builders listed their customers and we interviewed 91 of them. About one-half believed the Community Builders added value, about one-third believed the Community Builders did not add value, and the remainder stated that Community Builders had an adverse effect. We also interviewed 54 HUD Program Directors; less than half thought the Community Builders added value.

² Public Law 105-277 states: "No part of any funds appropriated in this or any other Act shall be used by an agency of the executive branch, other than for normal and recognized executive-legislative relationships, for publicity or propaganda purposes, and for the preparation, distribution or use of any kit, pamphlet, booklet, publication, radio, television or film presentation designed to support or defeat legislation pending before the Congress, except in presentation to the Congress itself."

HUD Allocated Significant Resources to the Community Builder Position

In establishing the Community Builder program, HUD has redirected a significant amount of staff resources to outreach and customer relations activities [chart 6]. In our interviews with 59 Community Builders, 39 said they spent more than 50 percent of their time on public relations activities, yet this is not a stated HUD goal. Since HUD created the Community Builder position without any increase in HUD funding, all Community Builder costs reduced the funds available for program staff [chart 7]. The program staff, known as “Public Trust Officers,” have the responsibility for managing and enforcing several hundred HUD programs. At a time when HUD is designated by the GAO as a “high risk” agency, HUD can ill afford to devote substantial resources to the Community Builder concept. Community Builder activities do little to address HUD’s mission and channel scarce resources away from the areas that could help in addressing the material weaknesses in HUD programs.

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Our overall conclusion was HUD should discontinue the Community Builder position. As designed and implemented, the Community Builder function is too costly. HUD never established a need for the Community Builders, identified skills Community Builders would need, nor gave focus to their activities.

In creating the Community Builders, HUD gave its program staff a new title, Public Trust Officers. The Public Trust Officers are charged with executing and enforcing HUD’s programs. HUD diverted resources from the Public Trust Officers to create Community Builders. Thus, HUD has hampered its ability to perform its mandated program functions or correct the systemic problems it faces as the only agency the GAO lists as high risk. Further, recruiting, hiring, and training Community Builders for short term appointments is a very expensive and resource intensive process.

Requiring Community Builders to be proficient in the full spectrum of HUD’s programs, as well as other Federal programs, is optimistic and even impractical due to the volume, diversity, and complexity of such programs. In view of HUD’s limited staff resources, HUD should abolish the Community Builders.

In responding to our report, HUD cites favorable comments by other organizations on Community Builders. However, these organizations performed limited reviews. For example, Ernst & Young report the following to describe their work:

Under the terms of our engagement, which commenced September 2, 1999, we selected and reviewed a sample of 25 representative case studies (out of a population of 718 case studies provided) prepared by Community Builders Our sample of case studies was drawn solely from the population of case studies provided by HUD. The terms and scope of our engagement did not provide for us to independently verify or otherwise test the completeness of the overall case study population provided. Further, this report is based solely on information submitted by the Community Builders,

HUD, and individuals interviewed. In addition, all case study interview sources were individuals whom the Community Builders identified as references in their individual selected case studies. Our findings and observations relate solely to the selected case studies. The scope of our engagement did not provide for us to interview HUD employees regarding the Community Builder Program . . . This project was considered a consulting engagement under standards of the American Institute of Certified Public Accountants.

HUD had also asked to control our selection of people to interview and sites to visit, but we declined. HUD also cites several instances where Community Builders have had a positive impact. We have no doubt individual Community Builders have had positive impact. However, we believe career HUD employees have always had a positive impact and could have an even greater impact if given the same resources provided to the Community Builders

Abbreviations Used on Following Charts

HUD - Department of Housing and Urban Development

ODS - Office of the Deputy Secretary

CPD - Office of Community Planning and Development

FHEO - Office of Fair Housing and Equal Opportunity

PIH - Office of Public and Indian Housing

HUD Improperly Used Schedule A Authority

Schedule A Requirements

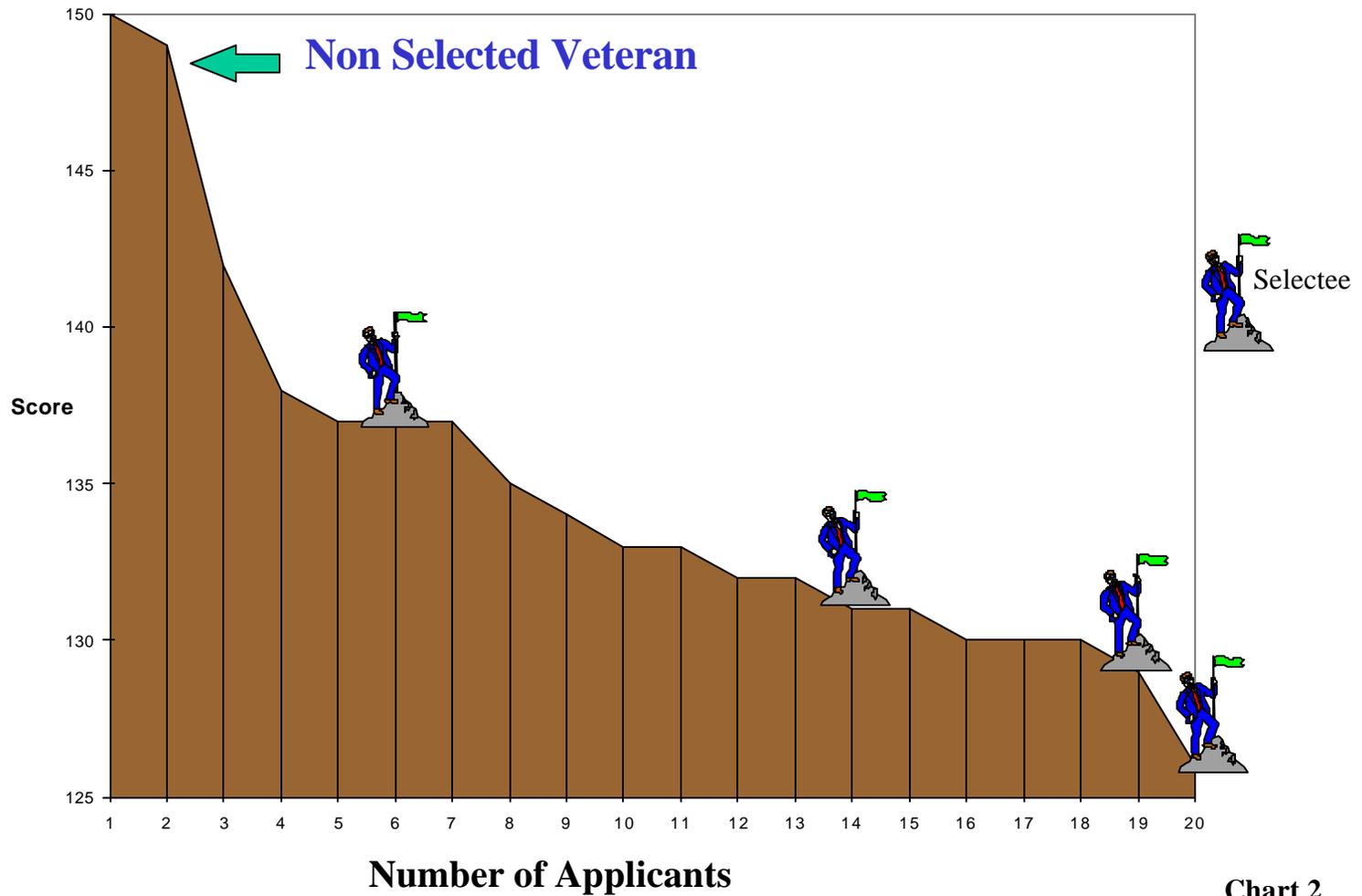
- Limited pool of applicants
- Positions are not of a confidential or policy determining character
- Used when not practical to examine

HUD's action

- Advertised for professionals from many walks of life
- Received 8,000+ applications
- Included in their functions items that would impact HUD policies
- Conducted a complete examination

Chart 1

Passed Over Veteran - Kansas City Best Qualified List Selections



Failure to Follow the "Rule of Three"

Fellows Round 1

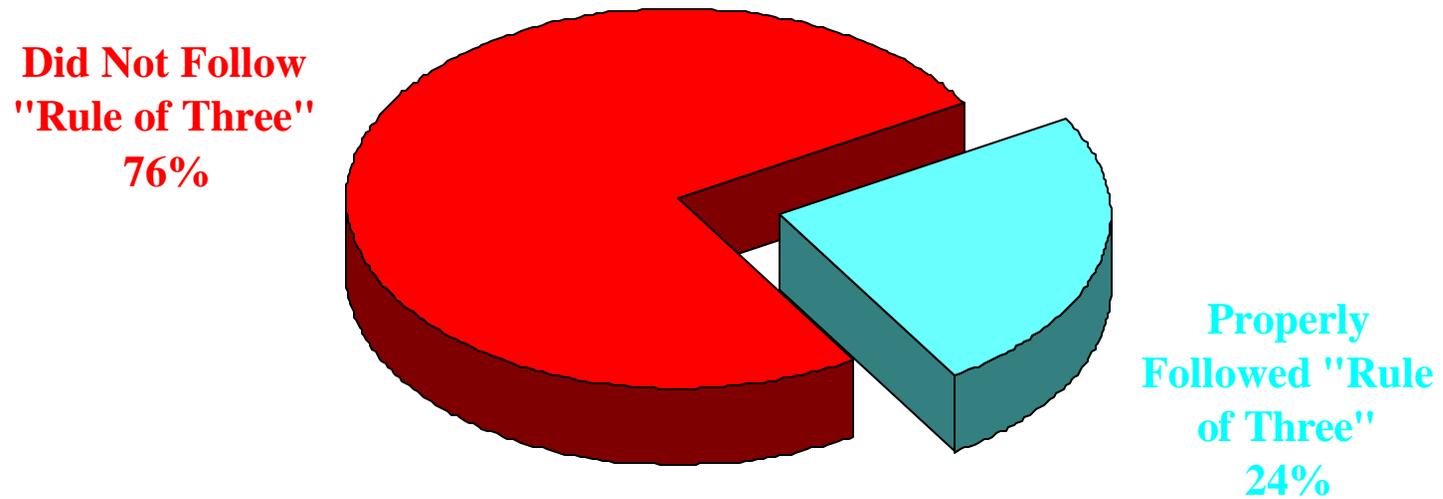
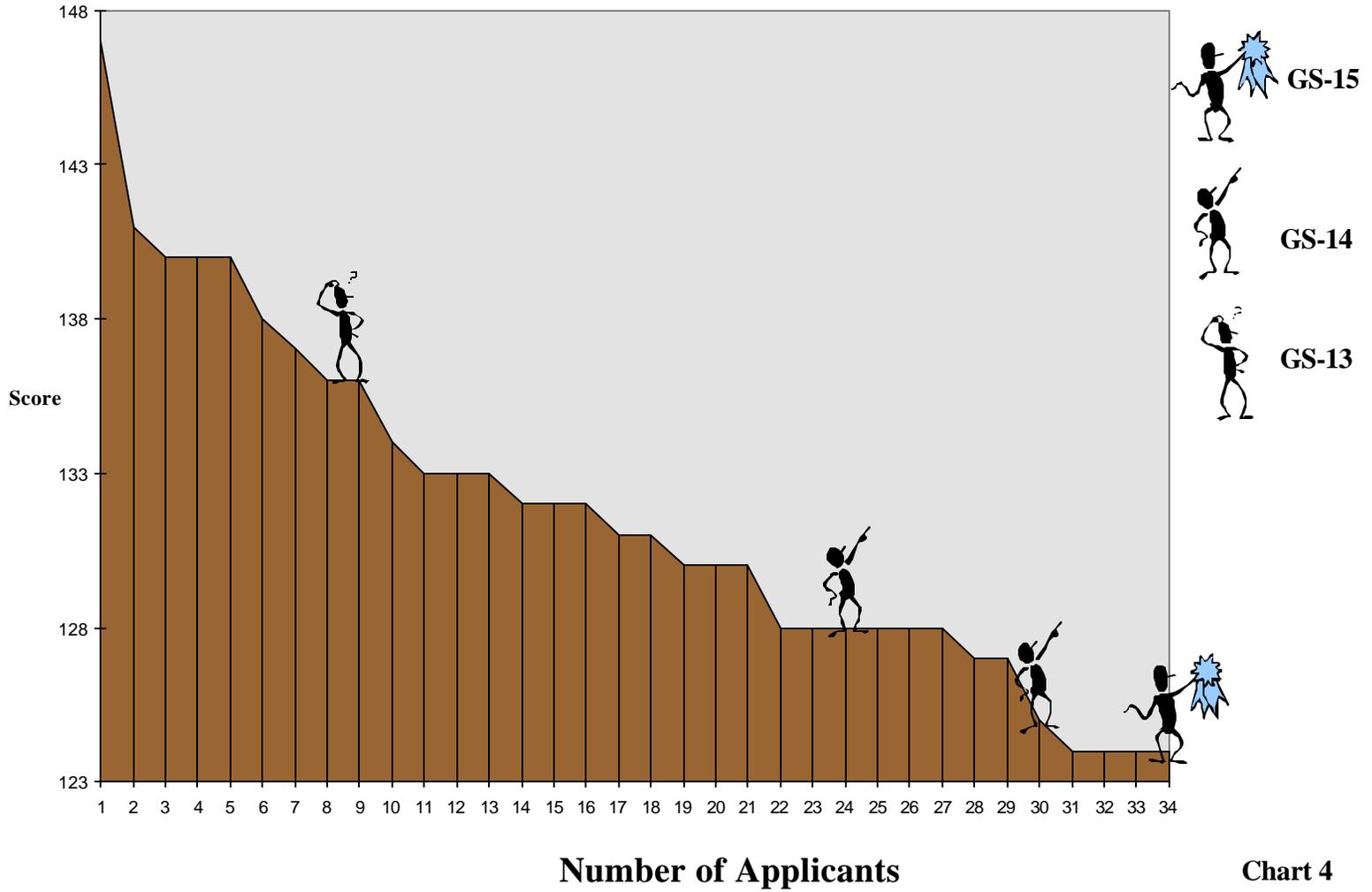
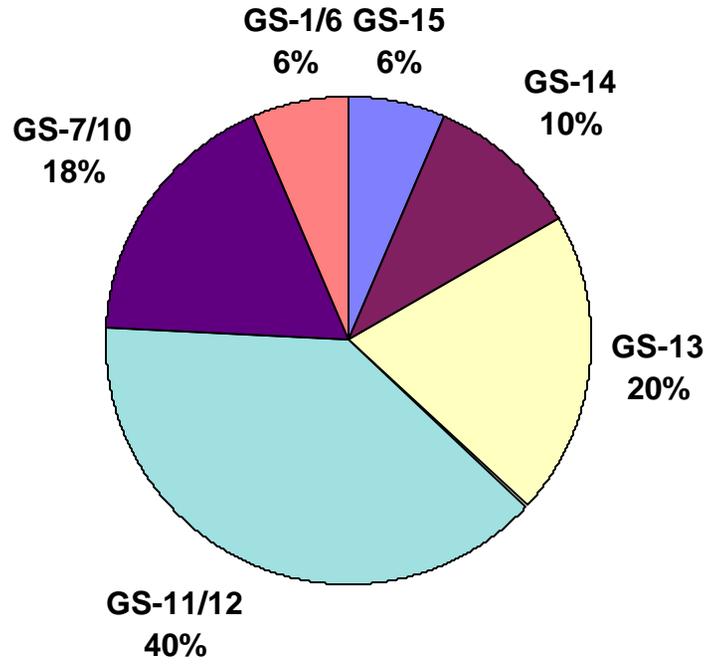


Chart 3

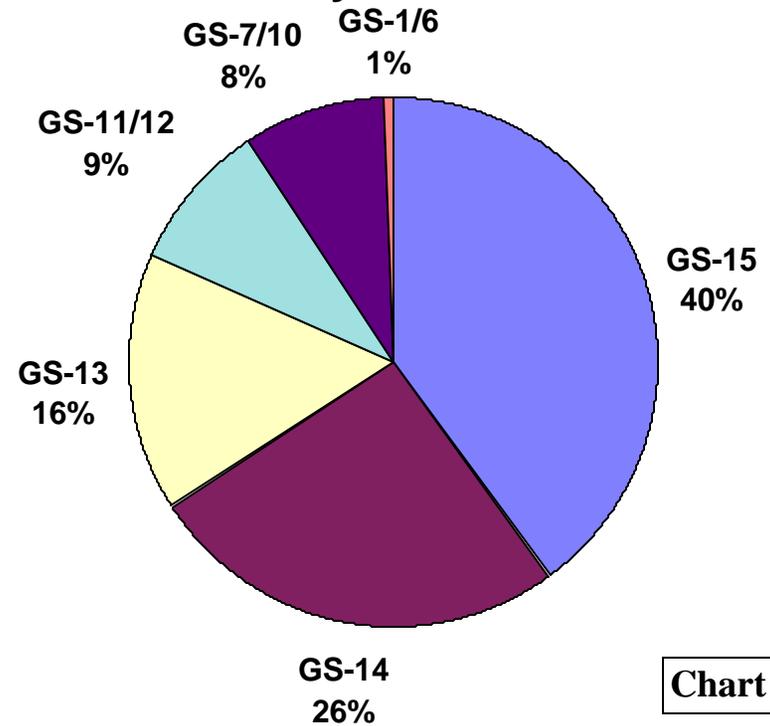
Pay Grade Inconsistencies - Dallas



Public Trust Officers



Community Builder Staff



Change in Staff Headcount FY97 to FY99 by Program Office

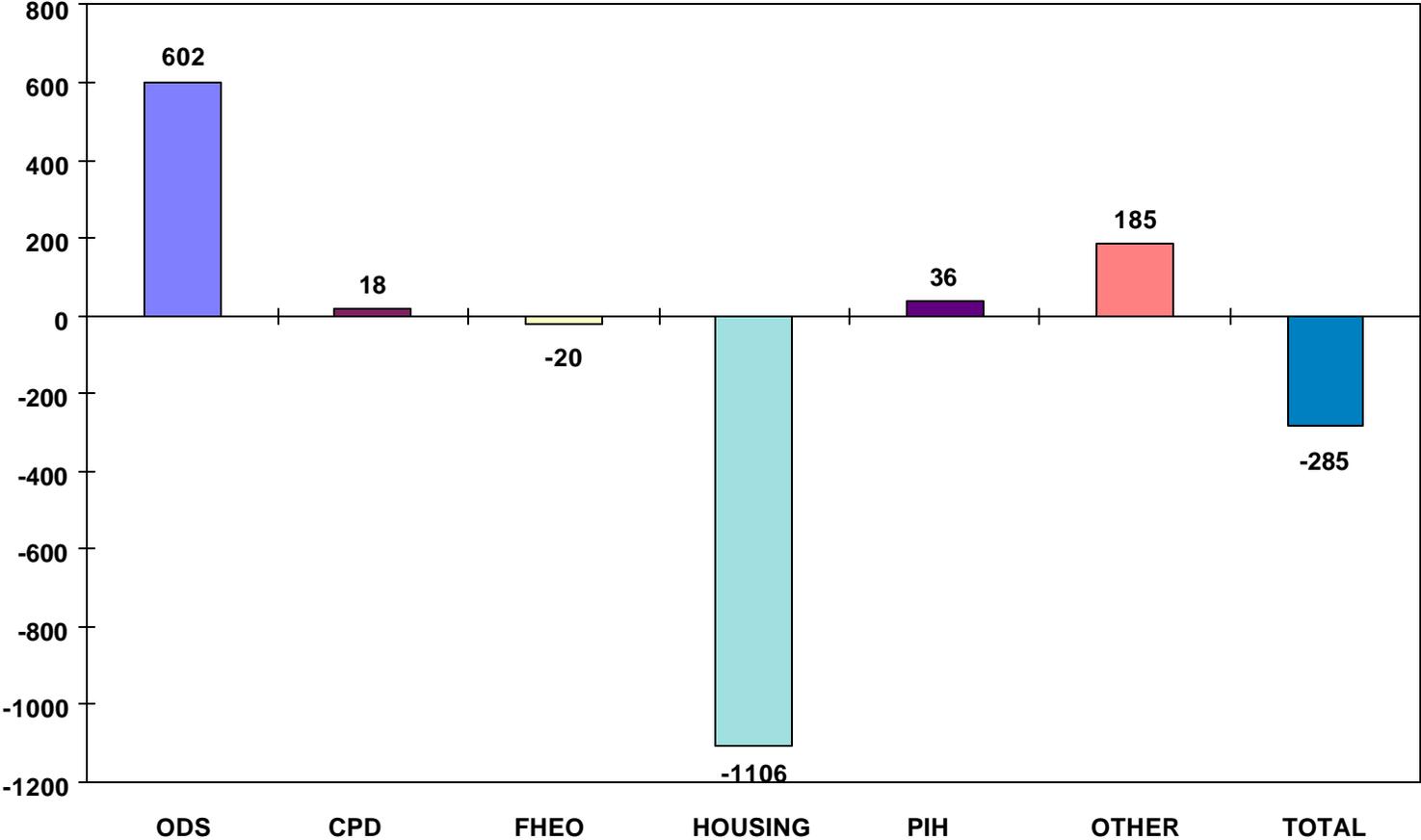


Chart 6

Field Travel Cost Change in \$ from FY97 to FY99 (10 months)

