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REPORT TO THE CONGRESS

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Improvements Needed In  
Management Of Projects To  
Develop Business Opportunities  
For The Poor B-130515

Office of Economic Opportunity

BY THE COMPTROLLER GENERAL  
OF THE UNITED STATES

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JULY 20, 1971



COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON, D.C. 20548

B-130515

*ci* To the President of the Senate and the  
Speaker of the House of Representatives

This is our report on improvements needed in management of Office of Economic Opportunity projects to develop business opportunities for the poor.

Our review was made pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

Copies of this report are being sent to the Director, Office of Management and Budget; the Secretary of Agriculture; the Secretary of Commerce; the Director, Office of Economic Opportunity; and the Administrator, Small Business Administration.

A handwritten signature in cursive script that reads "James B. Stacks".

Comptroller General  
of the United States

D I G E S T

WHY THE REVIEW WAS MADE

Through the creation of new business opportunities for the poor in ghetto and rural areas, the Office of Economic Opportunity (OEO) is attempting to innovate and develop new ways to help the poor become self-sufficient.

OEO funded about 740 research and pilot projects at about \$204 million during fiscal years 1965 through 1970. The projects--including economic development pilot projects--were designed to test new approaches to overcome special poverty problems or to further urban and rural community action programs.

These innovative projects are given a high priority in OEO's overall anti-poverty program. Therefore, the General Accounting Office (GAO) reviewed six of these projects located in Alabama, California, Ohio, Oregon, and Texas. Grant funds of about \$3.7 million were provided for these projects.

GAO evaluated


- project accomplishments,
- solutions to problems encountered,
- efficiency of OEO's administration, and
- control exercised by the grantees over the grant funds.

To evaluate OEO's general management of pilot projects, GAO reviewed also at OEO headquarters 23 pilot projects randomly selected from a total of 136 projects funded in fiscal year 1969.

FINDINGS AND CONCLUSIONS

The six economic development pilot projects had limited success in achieving their objectives and in demonstrating that these were workable approaches to solving the problems involved.

The projects' lack of managerial competence was one of the most critical problems in establishing minority-owned businesses or other business ventures to be operated by the poor.

JULY 20, 1971 

Other problems involving one or more of the projects included:

- Inadequate evaluations of the practicability of projects prior to funding.
- Unrealistic goals established in view of the amount of funds and the period of time available under the grant.
- Projects not organized sufficiently well to be effective.
- OEO's and projects' disagreements on program objectives.
- Work plans not fully implemented by projects.

The general downturn in the economy during fiscal year 1970 also may have hampered some projects from achieving their stated objectives. (See p. 11.)

In funding future projects, OEO should improve the planning and implementation of the projects to minimize these shortcomings. In the event that project goals cannot be accomplished, OEO should redirect such goals or should take other action timely to prevent or minimize the ineffective use of Federal funds. (See pp. 27 and 28.)

Federal and private expertise not used

The resources of private enterprise were not sufficiently involved in carrying out the six pilot projects nor were the resources of other Federal agencies sought to the fullest extent available. (See p. 30.)

OEO should consider ways to increase the use of jointly sponsored industry-OEO economic development pilot projects to establish minority-operated businesses or other businesses to aid the poor.

It was anticipated that four of the six projects would receive financial and technical assistance from other Federal agencies to accomplish their objectives. For two of the four, however, the necessary cooperation from other Federal agencies was not sought by OEO in advance of funding or was not well coordinated after funding. As a result the successful accomplishment of project goals was hampered. (See pp. 35 and 36.)

For example, the success of a component of one pilot project, a farmers' cooperative for raising and marketing feeder pigs, depended on about 1,000 farmers each obtaining a loan of \$2,750 from the Farmers Home Administration, Department of Agriculture. Neither OEO nor the project determined, prior to funding, whether these loans would be made available. When these loans could not be obtained, only 32 farmers were able to participate in the project by receiving loans provided from OEO funds. (See p. 36.)

Another Federal program, the Service Corps of Retired Executives (SCORE), which might have been helpful to several of the pilot projects, was not used by OEO. The Small Business Administration organized SCORE in 1964 to provide free counseling and guidance to new and established small businesses. More than 3,800 retired business executives belong to SCORE. Not until July 1970 did OEO inform its grantees of the availability of SCORE volunteers. (See pp. 36 and 37.)

Ineffective management by OEO

Some of the problems encountered by the six economic development pilot projects indicated a need for more effective management of the projects by OEO headquarters staff.

For example, OEO project managers of five of the six projects did not have training and experience in business. As a result they were not technically capable of providing management assistance to the projects. (See p. 39.)

GAO's review of OEO's general management of pilot projects showed a need for improvement. GAO found that

- adequate instructions, guidelines, and procedures had not been issued;
- most project managers did not have business backgrounds;
- projects were not always reporting on their operations;
- project operations were not being adequately monitored and evaluated; and
- project results were not being determined and disseminated. (See p. 39.)

Better financial management needed

Questionable expenditures of grant funds totaling about \$200,000 for four of the six projects were found by GAO, as well as by certified public accountants and by OEO's audit staff. These audits also showed that improvements were needed in the accounting procedures and internal controls for five of the six projects to provide greater assurance that grant funds were expended in compliance with OEO requirements. (See p. 56.)

Grantees are responsible for establishing an acceptable system of control and administration of grant funds, and OEO has a responsibility to provide sufficient surveillance and assistance to grantees to help ensure that grant funds are expended properly. (See p. 56.)

RECOMMENDATIONS OR SUGGESTIONS

In planning and implementing economic development pilot projects, OEO, through its Office of Program Development, should

- determine the feasibility of proposed projects and the organizational and managerial capability of the grantees to carry out the projects,
- reach a clear understanding with grantees on carrying out approved project plans,
- make evaluations at established intervals to detect problems in meeting interim goals to minimize the consequences of the problems, and
- take prompt and effective action toward resolving obstacles affecting accomplishments. (See p. 28.)

To obtain needed managerial competence in future economic development projects, OEO should consider using the resources of private enterprise and seeking maximum cooperation of other Federal agencies which could provide financial and technical assistance to OEO-sponsored projects. (See p. 37.)

OEO, through the Office of Program Development, needs to

- issue instructions, guidelines, and procedures for managing and funding research and pilot project grants;
- employ personnel having educational and vocational backgrounds in business to assist in the management of the projects;
- establish a training program for project managers;
- establish requirements as to the number and type of reports to be furnished on pilot projects;
- establish an effective monitoring and evaluation system to ensure that OEO will receive information to aid in managing projects and in analyzing their results; and
- improve OEO's dissemination of project results. (See pp. 53 and 54.)

OEO should ensure that pilot project grantees improve their management of grant funds and disallow unauthorized expenditures of grant funds. (See p. 57.)

AGENCY ACTIONS

OEO stated that GAO's report accurately presented OEO's management of economic development pilot projects and that it would be helpful in improving the projects and their management.

OEO agreed with the recommendations in the report and informed GAO of the actions taken or planned to implement them. (See app. I.)

MATTERS FOR CONSIDERATION BY THE CONGRESS

No new legislation is needed. GAO is reporting its findings to inform the Congress of the problems which have arisen in the administration of the economic development pilot projects and to demonstrate the need for greater use of the private sector and for better cooperation of Federal agencies in carrying out this program.

## C o n t e n t s

	<u>Page</u>
DIGEST	1
CHAPTER	
1 INTRODUCTION	6
Economic opportunity programs	6
Pilot project administration	9
The six pilot projects	10
2 SIX ECONOMIC DEVELOPMENT PILOT PROJECTS EXPERIENCED LIMITED SUCCESS	11
Albina Manufacturing Corporation	12
East Central Citizens Organization	16
South East Alabama Self-Help Association	21
Project Demeter	23
Migrant Rural Action, Inc.	23
Watts Labor Consumer Action project	26
Conclusions	27
Recommendations to the Director, OEO	28
3 OPPORTUNITIES FOR IMPROVED EFFECTIVENESS OF ECONOMIC DEVELOPMENT PILOT PROJECTS	30
Opportunities for participation of private enterprise	30
Coordination with other Federal agencies	35
Conclusions	37
Recommendations to the Director, OEO	37
4 IMPROVEMENTS NEEDED IN OEO'S MANAGEMENT OF PILOT PROJECTS	39
Instructions, guidelines, and procedures	40
Recruiting and training of pilot project managers	42
Reporting	45
Monitoring and evaluation	45
Determining and disseminating project results	51
Conclusions	54
Recommendations to the Director, OEO	54



CHAPTER		<u>Page</u>
5	NEED FOR IMPROVED CONTROLS OVER THE EXPEN- DITURES OF GRANT FUNDS	56
	Conclusion	57
	Recommendations to the Director, OEO	57
 APPENDIX		
I	Letter dated April 21, 1971, from the Dep- uty Director, Office of Economic Opportu- nity, to the General Accounting Office	61
II	Letter dated March 19, 1971, from the As- sistant Secretary of Commerce to the General Accounting Office	75
III	Letter dated March 1, 1971, from the Direc- tor, Office of Minority Business Enter- prise, Department of Commerce, to the General Accounting Office	78
IV	Letter dated February 8, 1971, from the Ad- ministrator, Farmers Home Administration, Department of Agriculture, to the General Accounting Office	79
V	Letter dated March 9, 1971, from the Adminis- trator, Small Business Administration, to the General Accounting Office	80
VI	Principal officials of the Office of Eco- nomic Opportunity responsible for the ad- ministration of activities discussed in this report	81

## ABBREVIATIONS

CPA	certified public accountant
ECCO	East Central Citizens Organization
FHA	Farmers Home Administration
GAO	General Accounting Office
MIRA	Migrant Rural Action, Inc.
OEO	Office of Economic Opportunity
SBA	Small Business Administration
SCORE	Service Corps of Retired Executives
SEASHA	South East Alabama Self-Help Association

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## CHAPTER 1

### INTRODUCTION

We reviewed six selected economic development pilot projects funded by the Office of Economic Opportunity under title II, section 232 of the Economic Opportunity Act of 1964, as amended (42 U.S.C. 2825).

Our review was directed toward evaluation of the accomplishments of these projects, solutions to problems encountered, efficiency of OEO's administration, and controls exercised by the grantees over the expenditures of grant funds. To evaluate the general management of pilot projects, we reviewed, in addition to the six pilot projects, the Office of Program Development's management of 23 pilot projects randomly selected by us from a total of 136 projects funded in fiscal year 1969.

We obtained comments on the matters discussed in this report from the Deputy Director of OEO; the Assistant Secretary of Commerce; the Director, Office of Minority Business Enterprise, Department of Commerce; the Administrator, Farmers Home Administration, Department of Agriculture; and the Administrator, Small Business Administration. These comments are included as appendixes I, II, III, IV, and V and are recognized in the body of the report where appropriate.

### ECONOMIC OPPORTUNITY PROGRAMS

The Economic Opportunity Act of 1964 (42 U.S.C. 2701) was enacted on August 20, 1964, to strengthen, supplement, and coordinate efforts to eliminate poverty in the United States. The act authorized the establishment of various programs intended to open to everyone the opportunity for education and training, the opportunity to work, and the opportunity to live in decency and dignity. To lead this endeavor, the act created OEO, headed by a director, in the Executive Office of the President.

Amendments enacted in 1965, 1966, 1967, and 1969, authorized continuance of the programs included in the original legislation, added new programs, and made various changes governing the administration of the programs.



The President of the United States in his message to the Congress in February 1969 on redirecting the economic opportunity programs stated that:

"OEO's greatest value is as an initiating agency--devising new programs to help the poor, and serving as an 'incubator' for these programs during their initial, experimental phases. One of my aims is to free OEO itself to perform these functions more effectively, by providing for a greater concentration of its energies on its innovative role."

Section 232 of the Economic Opportunity Act, as amended, permits the Director, OEO, to contract or provide financial assistance for pilot or demonstration projects conducted by public or private agencies that are designed to test or assist in the development of new approaches or methods that will aid in overcoming special problems or in furthering the purposes of rural and urban community action programs.

In January 1970 OEO stated the following purposes of pilot projects.

- To show how existing local and State private and public institutions and programs can be made more relevant to the needs and aspirations of the poor.
- To impact on the policies, programs, and legislation of other Federal agencies to make them likewise more responsive.
- To mobilize new and greater resources directed at the needs of the poor.
- To involve the poor in the mainstream of community and national life, and to demonstrate new ways to make their involvement more effective.
- To increase individual opportunities for self-sufficiency and to enrich the quality of individual and community life, especially for the disadvantaged.

Pilot projects funded by OEO include projects (1) devoted to finding new ways to develop income-earning opportunities and capacities of the poor through jobs and new business opportunities, such as minority-owned businesses and cooperatives, (2) directed toward finding new ways on how the poor can gain access to livable communities in both rural and urban areas, such as testing new approaches to providing low-income people with opportunities to obtain and manage decent housing, and (3) designed to supplement the efforts of community action programs to build bridges of communication and understanding between the poor and nonpoor and between the poor and those institutions which have a major impact on improving the status of the poor.

## PILOT PROJECT ADMINISTRATION

The Director of OEO is responsible to the President for the administration and coordination of antipoverty programs authorized by the Economic Opportunity Act; for the establishment of basic policies governing OEO operations and programs; and for the planning, direction, control, and evaluation of OEO programs.

Prior to September 1969, pilot projects were administered by the Research and Demonstration Division, Office of Program Policy, Community Action Program, OEO headquarters, Washington, D.C. In September 1969 the OEO headquarters office underwent a major reorganization, and the responsibilities for administering pilot projects were vested in a newly established Office of Program Development. This office is also responsible for administering Special Impact programs funded under title I, part D of the Economic Opportunity Act, as amended.

The authorized headquarters staff of the Office of Program Development in June 1970 was 118 positions, and on-board strength of full-time employees was 109, including 27 employees on the secretarial staff.

By June 30, 1970, OEO had provided funds of about \$204 million for about 740 research, demonstration, and pilot projects as follows:

<u>Fiscal</u> <u>year</u>	<u>Obligated</u> <u>amount</u> <u>(millions)</u>
1965	\$ 16.5
1966	55.6
1967	24.6
1968	28.0
1969	26.5
1970	<u>52.6</u>
Total	<u>\$203.8</u>

## THE SIX PILOT PROJECTS

Basic information concerning the six economic development pilot projects covered in our review is shown below.

<u>Pilot project</u>	<u>Purpose of project</u>	<u>Grant period</u>		OEO grants as of June 30, 1970
		<u>From</u>	<u>To</u>	
Albina Manufacturing Corporation, Portland, Oregon	To demonstrate that a minority-owned business can make a significant social and economic impact in a ghetto area	June 1968	Apr. 1971	\$1,457,000
East Central Citizens Organization, Columbus, Ohio	To demonstrate that a self-governing neighborhood service corporation can become self-sufficient	Aug. 1968	July 1970 <sup>a</sup>	578,000
South East Alabama Self-Help Association, Tuskegee, Alabama	To demonstrate that a rural Community-based service corporation can become self-sufficient	Oct. 1968	June 1971	764,000
Project Demeter, Visalia, California	To demonstrate that a rural grass-roots organization can assume the responsibility for economic development in a rural area	Apr. 1969	Dec. 1971	237,000
Migrant Rural Action Inc., Webb County, Texas	To demonstrate that migrant families can be converted into owners of mechanized truck farms	June 1968	Nov. 1970	386,000
Watts Labor Consumer Action Project, Los Angeles, California	To demonstrate that an indigenously organized and operated consumer action project can meet the consumer needs of the poor in a ghetto area	June 1967	Dec. 1969	<u>261,000</u>
<b>Total</b>				<b><u>\$3,683,000</u></b>

<sup>a</sup>In July 1970 OEO discontinued funding the grantee as a pilot project and began funding it as a title I, part D Special Impact program.

## CHAPTER 2

### SIX ECONOMIC DEVELOPMENT PILOT

#### PROJECTS EXPERIENCED LIMITED SUCCESS

The six projects had limited success in achieving their objectives and demonstrating the feasibility of the innovative concepts involved. Because of the experimental nature of pilot projects which are intended to develop and test new approaches to reducing poverty, it is important to study carefully the shortcomings and successes of ongoing projects before planning or approving similar projects.

One of the most critical problems was the lack of grantee managerial competence in operating minority-owned businesses or other business ventures of the poor. Our proposals for greater efforts by OEO to enlist the experience and resources of private enterprise and available financial and technical assistance of other Federal agencies to strengthen the managerial know-how of OEO assisted pilot projects are discussed in chapter 3.

Other problems found by us with respect to one or more of the projects included:

- Inadequate evaluations of the feasibility of the projects prior to initial funding.
- Establishment of unrealistic goals in relation to the level of funding and period of grant.
- Grantees lacked effective organizational structures.
- Disagreements developed between OEO and grantees on project objectives.
- Work plans were not fully implemented by grantees.

Although not readily measurable, the general downturn in the economy during fiscal year 1970 also may have hampered some projects from achieving their stated objectives.

Some of the above problems indicated a need for more effective management by OEO headquarters staff. Our evaluation of OEO's management of pilot projects, in general, and proposals for improvements are discussed in chapter 4.

Our comments on the results of the six projects follow.

#### ALBINA MANUFACTURING CORPORATION

The primary objective of the Albina project in Portland was to demonstrate that a ghetto-owned, ghetto-controlled corporation could make a significant impact on the financial and social development of a poverty population. This was to be accomplished through a so-called second-income plan by (1) employing residents of a ghetto community to manage and operate a manufacturing-type enterprise and (2) distributing shares of stock to employees, using a formula based on compensation, which thereby promoted corporate growth and made the employees capital owners.

To conduct the project, OEO granted Albina a total of about \$1.46 million beginning in June 1968 and spent another \$174,000 for technical and managerial assistance; the Department of Labor awarded Albina two contracts totaling \$446,000 for on-the-job training; the Small Business Administration guaranteed \$350,000 of a \$400,000 bank loan and leased a building to Albina for a period of 18 months with an option to purchase; and the Economic Development Administration, Department of Commerce, provided funds of \$45,000 to conduct a feasibility study on the potential of marketing and manufacturing boats. In addition, Albina had the free use of surplus Government equipment from the Defense Industrial Plant Equipment Center.

Albina used part of the grant funds to establish a metal fabrication plant in an old bowling alley leased from the Small Business Administration in May 1968 and located in the Albina target area of Portland. Albina also established a fiber glass boat production plant at another location outside the target area.

The major part of the corporation's manufacturing work was devoted to a \$1.2 million contract competitively awarded

in February 1969 by the Department of the Army (Frankford Arsenal) for manufacturing 227,569 ammunition storage containers having a selling price of \$5.29 each. Other sales generated by the project amounted to about \$300,000 and included work for various Federal agencies and private corporations. As of November 1970 Albina did not have any major work programmed after the estimated completion date of the storage container contract in May 1971.

After 26 months of operations, Albina had incurred an operating loss of over \$1.3 million. It appeared unlikely that Albina could operate at a profit in the foreseeable future and thereby demonstrate whether a second-income plan could have the anticipated effect on the community, unless significant changes were made in its operations. We believe that the following conditions contributed to Albina's inability to make a profit.

1. The board of directors was dominated by Albina's top management personnel, and policies were made and activities of the company were conducted without an outside review to evaluate such policies and activities for objectively measuring the progress attained by Albina.
2. Albina filled all of its key management positions with members from the community who lacked marketing and manufacturing experience, which placed a strain on its ability to operate an efficient manufacturing plant. Further, there were frequent personnel changes in key management positions. For example, Albina had two or more people in the positions of president, vice president, and accountant from the time that it began operations in 1968.
3. Albina had not established well-defined, long-range production or marketing policies. Its operations were primarily oriented toward taking on any work for which it could possibly tool up its production facilities.
4. Albina was unable to produce a quality ammunition container at a sufficiently high level of production to meet contract delivery schedules and at a cost

lower than the established selling price. This was caused primarily by:

--Albina's undertaking to manufacture a product which required close tolerance work and using equipment which was not capable of holding the required tolerances. This caused considerable rework of ammunition containers to meet the Army contract's specifications which resulted in increased costs.

--Albina's inability to obtain a skilled and stable work force capable of producing the complex products it was manufacturing. The president of the company estimated that the turnover rate was about 300 percent. Moreover the company had to hire about five employees to ensure that three positions would be filled for each production shift.

OEO, in administering the Albina project, did not (1) provide adequate technical assistance to Albina, (2) finance the project on a timely basis, and (3) resolve project deficiencies disclosed during its monitoring and evaluation efforts.

In May 1970 OEO concluded that Albina had a dismal business history, although its social achievements in the black community had been significant. OEO decided to award Albina a final grant of \$370,000 to be used to pay off Albina's creditors, to contract for technical assistance, to finance a month's payroll, and to provide for employee severance pay. OEO decided also that, except for monitoring the expenditures of these final funds, its relationship with Albina was terminated.

Due to a lack of working capital to purchase raw material and to pay its work force, Albina in February 1971 laid off its employees, except for a skeleton crew of 11 persons, and closed down its production facilities. Albina informed Frankford Arsenal that it desired a termination of the container contract. In February 1971 OEO granted Albina an extension to April 15, 1971, to use about \$10,000 remaining from the \$370,000 grant to seek new businesses.



The project did have some beneficial aspects. In May 1970 Albina was employing 90 persons and, after inception of the project, had employed a total of 305 persons, many of whom were unemployed and came from the ghetto community. This work experience should have benefited the employees who left Albina; the president of the company stated that most of his former employees had obtained other jobs for higher wages.

## EAST CENTRAL CITIZENS ORGANIZATION

The primary objective of the East Central Citizens Organization (ECCO) project in Columbus was to demonstrate that a self-governing neighborhood service corporation could continue providing community services to the poor while becoming independent of outside sources of financial assistance through the establishment of revenue-producing enterprises. ECCO proposed to demonstrate that:

1. A self-governing neighborhood corporation can within 3 years establish sources of sufficient income to ensure its continuation without governmental grant funding.
2. An organization previously dedicated solely to providing self-government, community organization, and social services is sufficiently versatile and flexible to enter the world of business on a competitively profitable basis.
3. Local business, labor, and civic leaders will support and cooperate with a ghetto-based, self-help organization which seeks to finance its programs through business enterprise.
4. Low-income residents have the capacity and desire to become stockholders, managers, and entrepreneurs if given the opportunity.
5. A neighborhood corporation can continue to provide relevant programs of government, service, and organization while engaged in a campaign to become financially self-sufficient.

From August 1968 to July 1970, OEO granted ECCO \$225,000 of seed money (funds used to attract capital from other sources to invest in business ventures) for investment purposes to establish profitable business ventures and \$327,000 for administrative expenses to continue ECCO's community service programs. OEO also provided ECCO with \$26,000 to form an independent evaluation committee to evaluate ECCO.

Members of ECCO's board of directors seemed to have the necessary experience in business matters to provide expert advice, but ECCO had not adequately staffed the ECCO Development Corporation which was formed to establish profitable business ventures by using the OEO-provided seed money. After almost 2-1/2 years of operations, ECCO had made only limited progress in getting income-producing activities under way. Part of the problem stemmed from the fact that the funds for capital investment were not received until 3 to 5 months after the grants had been approved by OEO, causing confusion in investment planning and delays in the purchase of business ventures.

The director of ECCO, who also served as president of the development corporation, stated that the pressures of the ECCO community for services prevented him from adequately staffing the corporation with funds provided by OEO. As a result, ECCO requested a \$152,800 grant from the Economic Development Administration, Department of Commerce, to staff the corporation. In November 1969 the Economic Development Administration turned down the request and informed ECCO that:

"We have attempted to maximize the impact of our small budget by maintaining the momentum of on-going activities; and therefore, have been reluctant to expand our technical assistance efforts beyond these \*\*\* cities in which we are presently working."

In its August 1968 proposal to OEO, ECCO stated that the objective of the pilot project would be "to achieve financial independence for itself and its many programs of service and opportunity to the community" which were budgeted at about \$370,000. Assuming ECCO could earn a 10-percent return on any businesses that it established, it would have needed at least \$3.7 million of investment capital from OEO and other sources to fully support the service programs it operated. Because OEO provided only \$225,000 in seed money, the chances that ECCO would be able to attract the remaining capital and have such capital produce sufficient revenues to allow it to become self-sufficient within 3 or 4 years was highly unlikely.

In May 1970 ECCO modified its goals of self-sufficiency to that of generating profits capable of supporting only the ECCO administrative staff budgeted at about \$50,000 annually. ECCO indicated that the community services programs would continue to be funded by OEO and other Federal agencies.

In July 1970 OEO discontinued funding ECCO as a pilot project and began funding it as a Special Impact program under title I, part D of the Economic Opportunity Act, as amended (42 U.S.C. 2763).

Title I, part D allows OEO to initiate Special Impact programs to fight poverty in urban areas having large concentrations of low-income residents or rural areas having substantial migration to such urban areas. These programs--combining businesses, community, and manpower development--are designed to have a major impact on unemployment, dependency, and community tensions. The Special Impact program is experimental and offers the poor an opportunity to use the free-enterprise system to become independent and self-supporting and to get a piece of the action.

ECCO requested OEO to provide title I, part D Special Impact funds of about \$2 million to achieve a breakthrough in solving the economic, social, and physical problems of the ECCO area. ECCO is located in the east-central section of the city of Columbus and covers 40 city blocks having a population of about eight thousand residents. ECCO proposed to use the funds to establish (1) a plant to manufacture low-cost modular homes and (2) a capital revolving fund to be used to make loans and to guarantee loans from private lending institutions to support ECCO's enterprises and to provide economic assistance to local minority businesses.

On June 30, 1970, OEO awarded ECCO a \$900,000, 24-month Special Impact grant which included \$550,000 of venture capital. ECCO was required to obtain \$100,000 of venture capital from non-Federal sources.

As of November 1970 ECCO had invested funds in seven business ventures; although it was too early to assess the long-range profit potential of these businesses, the small amounts of funds invested made it doubtful whether significant revenue would be derived in the near future for use in

paying ECCO administrative staff. ECCO's investments are shown below.

<u>Business Ventures</u>	<u>Amount invested</u>	<u>Date of investment</u>
Mound Street apartments	\$15,700 <sup>a</sup>	June 1970
ECCO Dairy Bar	23,900	Jan. 1970
Bass Dairy Store	7,500	June 1970
18th and Oak Street Market	30,000	June 1970
Land purchased for construction of 18 townhouse cooperatives	22,000	Apr. and May 1970
Litter receptacles	25,000	June, July, and Oct. 1970
Building lease for school of cosmetology	1,800 (1 year)	July 1970

<sup>a</sup>ECCO also assumed a \$45,500 loan.

The ECCO project was evaluated by a committee composed of individuals having professional expertise in the economic, social, and physical aspects of communities, such as the ECCO area. The evaluation committee, in its report dated August 31, 1970, concluded that OEO's funding of ECCO activities, on the whole, had been a failure in that ECCO was not self-sufficient and that none of the evidence indicated a high probability that ECCO's business ventures would yield any more than if the OEO grants had been invested in U.S. Government bonds.

The evaluation committee also stated that, if ECCO hoped to maintain a reputation as a community organization involving large numbers of its neighborhood residents, it should increase its recruiting program to draw in new participants since only 10 percent of ECCO's 600 active members were new to the organization during the first half of 1970. The committee recommended that ECCO should better inform its constituency of ECCO's goals, accomplishments, services, and benefits.

Finally the evaluation committee concluded that the concepts of self-sufficiency, self-determination,

self-control, and ownership were meaningful alternatives to be tested for alleviating poverty; the self-sufficiency experiment at ECCO should be continued; and OEO should allow ECCO the necessary freedom and flexibility to make its own mistakes as well as its own successes.

## SOUTH EAST ALABAMA SELF-HELP ASSOCIATION

The primary objective of the South East Alabama Self-Help Association (SEASHA) is to demonstrate that a rural community-based organization can undertake varied economic development enterprises which generate sufficient funds to sustain SEASHA's community service activities.

SEASHA's major areas of activity included community service, a feeder-pig cooperative, nonfarm economic development, and a credit union. To carry out these activities, OEO granted SEASHA a total of about \$764,000 for the period October 1968 to June 1971. The Economic Development Administration, Department of Commerce, awarded SEASHA a contract of about \$157,000 for the period April 1969 to August 1971 for nonfarm economic development. Included in the OEO grant was \$165,000 of seed money to be used to establish nonfarm businesses in connection with the contract from the Economic Development Administration.

As of November 1970 the project had made negligible progress toward demonstrating its feasibility, primarily because of (1) inadequate coordination of OEO's plans with the Farmers Home Administration (FHA), Department of Agriculture, (2) the inability of the project to attract nonfarm business ventures, and (3) ineffective management by OEO.

SEASHA's proposal for OEO assistance stated that the goal of the feeder-pig cooperative was to become self-sustaining after a 2-year period. The proposal stated also that the cooperative would involve up to 1,000 low-income farmers in a 12-county area in rural southeast Alabama, who were potential out-migrators to urban centers.

It was anticipated that participating farmers would obtain loans of \$2,750 each from FHA. Neither OEO nor SEASHA officials, however, made a determination, prior to funding the cooperative, whether FHA loans would be available for the feeder-pig project.

None of the farmers were able to obtain FHA loans, primarily because of the unavailability of FHA loan funds and because most of the farmers could not meet the credit requirements of FHA. As of November 1970, after 25 months of

operations, only 32 farmers who obtained loans from SEASHA were participating in the feeder-pig cooperative. This activity did show some promise of raising the living standards of the farmers involved but would have to be greatly enlarged before sufficient funds would be available through the feeder-pig cooperative to help support SEASHA's community service activities.

As of November 1970 no firm commitment had been obtained by SEASHA from private enterprise to establish businesses in the 12-county target area. Most of the \$165,000 of investment capital provided by OEO was used, after OEO approved budget changes, to pay salaries and related expenses of the feeder-pig program rather than to establish business ventures.

SEASHA established a credit union in April 1969, which as of May 1970 had about 1,900 members. The credit union, however, was experiencing financial difficulties because of a substantial number of delinquent loans.

Without additional funds for loans to farmers and investment in business ventures, it is unlikely that SEASHA can become self-sufficient or can make any notable progress toward the alleviation of poverty in the 12-county target area.

In managing the SEASHA pilot project, OEO should have taken more effective action by

- evaluating the feasibility of proposed project goals;
- denying SEASHA's requested budget changes to use the nonfarm economic development seed money for paying the salaries of feeder-pig cooperative staff that would leave little money for establishing businesses, one of the project's goals;
- coordinating its efforts with FHA; and
- providing SEASHA with needed management assistance, including an evaluation of the progress of SEASHA in accomplishing stated objectives, and correction of project deficiencies reported by consultants under contract with OEO.



## PROJECT DEMETER

The primary objective of project Demeter in Visalia was to test the ability of a rural grass-roots organization to take on the responsibility for economic development in a rural area by establishing business ventures owned and operated by low-income individuals. In April 1969 OEO awarded a 14-month \$237,198 grant to the Tulare County Community Action Agency which delegated the project to Rural Action Groups, Inc., an organization of low-income community groups. In October 1970 OEO transferred the grant to Rural Action Groups and extended the termination date of the grant through December 1971.

Opposition by four Tulare County Community Action Agency board members to project Demeter and the inability of Rural Action Groups to hire administrative staff for the project because of internal and external conflicts delayed implementation of the project. As of September 1970, or 17 months after the award of the grant, project Demeter's efforts consisted primarily of conducting feasibility studies on a number of proposed business ventures, of providing financial assistance to three small businesses, and of considering the desirability of financing seven others.

Project Demeter's assistance to the three businesses included loaning \$10,400 and \$18,400, respectively, to two low-income groups for the purpose of establishing gas station-grocery store combinations in a public housing project near Woodville, California, and on the Tule Indian Reservation adjacent to the Sequoia National Park and loaning \$5,500 to two farmers to operate a food-processing plant.

At the completion of our fieldwork in September 1970, project Demeter had begun to make progress toward assisting in the establishment of businesses owned by low-income individuals but the project had not been in operation long enough to permit a full assessment as to whether it would achieve its objectives.

## MIGRANT RURAL ACTION, INC.

The primary objective of the Migrant Rural Action, Inc. (MIRA), project in Webb County was to demonstrate that a

group of migrant families could be trained to become mechanized truck farmers and establish and successfully operate their own farms as an alternative to seasonal migration to the North in search of employment. OEO anticipated that, after receiving training and on-the-job experience, each migrant family would obtain a loan from FHA to purchase and operate a 50-acre truck farm.

In June 1968 OEO awarded the Economic Opportunities Development Corporation of Laredo and Webb County, Texas, a \$314,000 grant for conducting the project. In March 1970 the corporation was granted an additional \$72,000 through November 1970, at which time the project was terminated as a pilot project because it had not accomplished its objectives.

The operation of the project was delegated to the Laredo Migrant Opportunity Corporation which, in turn, entered into an agreement with MIRA, a profitmaking corporation to manage the project under the guidance of a board of directors that consisted of the 24 migrant families participating in the project. Actual operations of the project were started in January 1969 on a leased 505-acre farm in Webb County adjacent to the Rio Grande River in the lower south-central section of Texas.

As of December 1970 the Economic Opportunities Development Corporation assumed control over the farm and equipment and planned to grow and harvest crops until expiration of the farm lease in July 1971.

It was anticipated that the MIRA farm would grow and market fresh vegetables and realize a profit of about \$298,000 during the first year of operation. The profit would be used to establish a \$176,000 operational trust fund revolving account, to create a capital reserve of \$50,000, and to distribute \$3,000 to each of the 24 participating families.

The primary objective of the pilot project was not accomplished, because the necessary training program for the migrant families was not implemented and because most of the families had returned to the migrant stream. We believe

that the accomplishments of project objectives were further impeded by

- unrealistic project goals that did not consider such factors as the limited period of the grant, the meager educational and vocational experiences of the participants, and the length of training needed for converting the migrant families into farmers;
- an unworkable organizational structure--the project director did not have authority to direct a subordinate work force since the work force also served on the board of directors; and
- the managers of the project did not have the qualifications and experience required to provide administrative and operational direction.

MIRA did provide employment to the participating families and other migrant farm workers during peak work periods. Revenue was realized from the sale of some crops, although the farm operated at a substantial loss.

In managing project MIRA, OEO did not (1) coordinate the project with the Department of Agriculture and Department of Commerce, State agencies, and universities, contrary to the provisions of the grant proposal, or with other OEO-funded programs in the Laredo area, (2) take corrective action when deficiencies in the operation of the project were brought to its attention in monitoring reports prepared by consultants under contract with OEO, and (3) require the grantee to adhere to grant conditions, such as the establishment of a training program for the migrant families, which were essential for accomplishing project objectives.

## WATTS LABOR CONSUMER ACTION PROJECT

The primary objectives of the Watts Labor Consumer Action project in Los Angeles were to demonstrate that (1) residents of the Watts area, recruited and trained as community counselors, could develop an effective organization at the neighborhood level to meet the consumer needs of low-income residents and (2) the infusion of outside loan capital would stimulate the growth of a low-income community credit union in Watts.

In June 1967 OEO awarded a 1-year \$260,806 grant to the Watts Labor Community Action Committee for the purpose of conducting the project. The period of the grant was extended through December 31, 1969, at which time the project was terminated.

The Federal Government, directly or through the principal community action agency for Los Angeles, provided the Committee with \$6.5 million through grants and contracts from July 1966 through January 1970 to conduct various anti-poverty programs.

The primary objective of the pilot project was not accomplished, mainly because of a disagreement between OEO and the grantee on project objectives and method of implementation. Few of the proposed activities called for in the project proposal were implemented, and few of the expected results were realized.

The proposed objectives and project scope were formulated by OEO program personnel rather than by the grantee. The OEO staff who prepared the proposal intended community involvement and control to be the main thrust of the consumer action project and envisioned the project as a means for organizing the community into neighborhood-controlled councils concerned with consumer and economic issues in the Watts area. However, according to an OEO project manager's report in September 1968, the chairman, Watts Labor Community Action Committee, had no intention of allowing the community to control the project.

The chairman informed us that he considered the consumer action project to be a supportive and organizing arm

of the Watts Labor Community Action Committee and that it was not a separately identified project but part of the Committee's total consumer activities, which would provide opportunities for community residents to become more effective consumers and save money.

We noted that (1) the director of the consumer action pilot project spent more than half of his time serving as an assistant to the chairman of Watts Labor Community Action Committee and thereby spent little time directing the activities of the pilot project and (2) 10 employees who were paid about \$45,000 with grant funds under the OEO project were assigned to other Watts Labor Community Action Committee projects, such as the Neighborhood Youth Corps program, area clean-up details, and service stations.

The project proposal provided for the establishment of purchasing or buying clubs and cooperative enterprises. The director of the pilot project informed us, however, that buying clubs were not established because he believed the concept was unfeasible. Similarly, the chairman of the Watts Labor Community Action Committee disapproved a proposal for a purchasing cooperative because he disagreed with the cooperative concept and believed that such a venture would not work. He felt that the consumer needs of residents would be better served by establishing and operating such enterprises as food markets.

Our review indicated that OEO had not monitored and evaluated the progress of the project timely and effectively.

### CONCLUSIONS

The six economic development pilot projects had limited success in accomplishing their objectives as contemplated in the project proposals. In funding economic development pilot projects in the future, it is essential that OEO seek to avoid the shortcomings discussed in the preceding sections of this report. Of particular importance is the need for OEO to improve its planning and implementation of pilot projects and to ensure that grantees have the necessary managerial capability to conduct the projects. In the event that project goals cannot be

accomplished, OEO should redirect such goals or should take other action to prevent or minimize the ineffective use of Federal funds.

#### RECOMMENDATIONS TO THE DIRECTOR, OEO

We recommend that the Director, OEO, emphasize to the Office of Program Development that, in planning and implementing economic development pilot projects, it should

- determine the feasibility of proposed projects and the organizational and managerial capability of the grantees to carry out the projects,
- reach a clear understanding with grantees upon approval of such projects for carrying out approved project plans,
- make evaluations at established interim check points or milestones to detect problems in meeting interim goals to minimize the consequences of the problems, and
- take prompt and effective action toward resolving obstacles affecting accomplishments.

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By letter dated April 21, 1971, the Deputy Director of OEO informed us that OEO concurred in our recommendations and was taking action to institute the recommended improvements.

He informed us that a structured review system assessing the feasibility of project goals and the organizational and managerial capacities of grantees had been established. He agreed that the need for adequate managerial capability on the part of grantees was critically important and told us that the selection of the chief executive officer on all projects, and often their key staff, required OEO's approval.

The Deputy Director stated, in response to our second recommendation, that the review system established by OEO

would serve as a means for obtaining, in advance, a clear understanding by the grantee of the project plans and OEO's expectations of them and that, at least once a quarter, field visits would be made by OEO project managers to help guide grantees toward approved project plans.

Regarding our third and fourth recommendations, the Deputy Director informed us that, in their applications, grantees were required to build into their projects milestones of achievement and that, during field visits, project managers would determine whether these milestones were realistic and would identify problems and solutions.

## CHAPTER 3

### OPPORTUNITIES FOR IMPROVED EFFECTIVENESS OF ECONOMIC DEVELOPMENT PILOT PROJECTS

The resources of private enterprise were not sufficiently involved in carrying out the six pilot projects, nor were the resources of other Federal agencies sought to the fullest extent available.

#### OPPORTUNITIES FOR PARTICIPATION OF PRIVATE ENTERPRISE

Section 620 of the Economic Opportunity Act, as amended, provides that the Director, OEO, take such steps as may be desirable and appropriate to ensure that the resources of private enterprise are employed to the maximum feasible extent in conducting economic opportunity programs.

Participation of private enterprise in the six pilot projects consisted of (1) grantees' engaging consultants to provide technical assistance, (2) OEO's engaging consultants under technical assistance and monitoring contracts, and (3) grantees' obtaining the services of persons having expertise in business matters on their board of directors. In our evaluation of the projects, we noted that the use of such consultants and board members did not provide the pilot projects with the necessary management expertise to efficiently operate the business ventures or to attract new business ventures.

For example, the Albina Manufacturing Corporation employed a consulting management team from August 1968 to August 1969 for the positions of manufacturing manager, comptroller, plant superintendent, plastic boat superintendent, and purchasing agent. In August 1969 OEO requested Albina to dismiss these consultants because Albina was having financial and production problems and hired another consulting firm to analyze Albina's operations.

In its report to OEO dated September 8, 1969, the consulting firm recommended that a complete management team take over the duties of managing the corporation. On September 18, 1969, OEO hired the consulting firm to assume the duties of general manager of Albina.



The management consulting team, however, was unable to improve Albina's manufacturing capability to produce ammunition storage containers on a sustained, high-volume-production basis to meet delivery schedules, and in June 1970 OEO terminated the contract with the consulting firm.

Many leading businessmen, researchers in the field of minority-group capitalism, and Government officials have stressed the need to incorporate into economic development projects, such as those discussed in this report, the characteristics of the private sector which have been essential to business success. One of the most important is managerial competence, a factor markedly lacking in the projects that we reviewed. Because OEO is allocating increasing amounts of its resources to Special Impact and pilot projects that are to demonstrate new ways for the poor to become self-sufficient through business opportunities and creation of jobs, the desirability of enlisting the resources of private enterprise to provide the necessary management know-how takes on greater importance.

For example, a consultant to OEO who evaluated a number of economic development projects stated in his final report dated March 1969, that:

"Management is the single most important determinant of a successful enterprise, and is a badly neglected aspect of the projects studied. A structured program of management training for project personnel is essential. OEO monitoring personnel similarly often lack management know-how, and it is necessary that this be supplied for the project monitors. Continuing on-the-spot management assistance for the first year of any project is also essential, to teach the on-going management of the enterprise the use of records and management tools, the importance of planning the phasing of operations, and methods for communicating with the staff of the organization, the membership, and the outside economy."

In commenting on establishing businesses in the ghetto, the American Management Association in its book published

in 1968 under the title "Mobilizing for Urban Action" stated, in part, that:

"The creation of a small business today, however, is a far more complicated task than it was only yesterday. Larger capital is needed to start. The new businessman must have some fairly sophisticated knowledge of how to market, merchandise, and advertise his product. He must know public relations and a hundred other intangible skills. Dun and Bradstreet reports that of all small business failures, over 90 percent are due to a lack of management know-how-not a lack of money."

The Vice President of the United States, in a speech on March 7, 1970, to the National Alliance of Businessmen, stated, in part:

"A venture into minority business is even riskier than a venture into small business generally. The minority enterprises are usually marginal and are undercapitalized. They have limited markets and restricted locational opportunities--many times artificially imposed by discrimination from the majority community.

"With unskilled business personnel, they are handicapped in overcoming these built-in impediments. Usually subject to vandalism, pilferage, and robberies, the minority businessman finds that insurance is sometimes completely unavailable and usually unobtainable at realistic rates.

"Starting with such handicaps, it is obvious that the potential minority business entrepreneur is going to need something more than a bank loan. He is going to need the type of assistance which can come only from the private sector--marketing skills, a knowledge of organizational and personnel procedures, accounting and purchasing know-how, advertising and public relations expertise--all of which make the difference between profit and loss."

There are many ways in which private industry can become involved in minority business development. In an article in the Journal of Small Business (April - July 1969), Mr. Henry Honechman described one way that a large corporation could develop minority-owned enterprises: the "spinoff". Mr. Honechman stated, in part:

"Through the spinoff approach, a large business develops a new business by spinning off products, purchasing contracts, people, processes, and pertinent technology and managerial assistance. The minorities lack exactly those items that are the strengths of the establishment: contact with capital and customers; access to technology and managerial know-how."

"Probably the strongest argument for the limited success in getting substantial minority enterprises going and keeping them in business is that most endeavors to date did not take into account the primary motive of most businesses--to make a profit for the stockholders. Companies are not established to further the public interest. Too many of these new endeavors have been force-fit into operations that cannot stand the pressures of the market place. With careful thought, and a sound business approach, it should be possible to spin-off new minority business to the profitable advantage of both parties."

Managerial competence is one of the most critical needs for the successful establishment of minority-owned businesses and other projects designed to aid the poor in becoming self-sufficient. Greater use of private enterprise to provide this competence would be desirable as a supplement to the Government's financial assistance, which was the primary ingredient provided by OEO in the projects that we reviewed. We, therefore, believe that OEO should consider ways for increasing the use of jointly sponsored industry-OEO economic development pilot projects to establish minority-operated businesses or other businesses to aid the poor in ghetto and rural areas.

The relationship between industry and OEO can take many forms. For example, such a relationship could consist of OEO's providing financial assistance or incentives to a well-established corporation to develop a business in a ghetto or rural area which would offer ownership and employment opportunities to the area's residents with the management of the new business receiving support and guidance of the sponsoring corporation's top management. OEO could also provide financial assistance to grantees representing minority group employees of the new venture or residents of the ghetto or rural area to enable them to acquire equity capital in the private firm.

## COORDINATION WITH OTHER FEDERAL AGENCIES

The Congress intended that antipoverty programs funded under the Economic Opportunity Act should be coordinated with other antipoverty programs and Federal agencies to provide a concentrated effort to eliminate poverty.

At the national level, OEO has coordinated its economic development efforts with other Federal agencies through the Office of Minority Business Enterprise, Department of Commerce. The President of the United States authorized the establishment of the Office of Minority Business Enterprise on March 5, 1969, by Executive Order 11458. One of the functions of this office is to coordinate the plans, programs, and operations of the Federal Government which affect or may contribute to the establishment, preservation, and strengthening of minority business enterprise.

The Inter-Agency Committee on Minority Business Enterprise was established to serve as the focal point for the coordination of overall Federal efforts in minority enterprise. Most of the major Federal agencies including OEO are members of the Inter-Agency Committee which meets monthly and serves as a forum for discussions of ways to improve the minority enterprise program, particularly through the work of task forces.

OEO representatives have been members of several task forces, including (1) the Task Force on Federal Procurement which was established to analyze Government procurement policies to determine the extent of minority participation and potential markets for such entrepreneurs and (2) the Task Force on Assistance Grants which was created to consider the many Federal grant-in-aid programs assisting minority enterprises and to make policy and program recommendations, including mechanisms for improved reporting and coordination.

Although OEO had established coordination with other agencies at the headquarters level, it had not secured the assistance of other Federal agencies to the fullest extent available in carrying out economic development pilot projects. Four of the six pilot projects anticipated the receipt of financial and technical assistance from other

Federal agencies to successfully accomplish their objectives. For two of the four projects, however, the necessary cooperation from other Federal agencies was not generally sought by OEO in advance of funding or was not well coordinated after funding. As a result the successful accomplishment of project goals was hampered, as discussed below.

1. The success of the feeder-pig cooperative component of the SEASHA pilot project was contingent upon a large number of farmers (up to 1,000) obtaining loans of \$2,750 each from FHA. Neither OEO nor SEASHA made a determination as to whether these loans would be made available. When these loans could not be obtained, only 32 farmers were able to participate in the project by receiving loans provided from OEO funds.
2. It was anticipated that the MIRA farm project in Laredo, Texas, would obtain technical assistance from the Department of Agriculture and Department of Commerce as well as from State agencies and universities located in Texas. This assistance was generally not obtained. Timely technical advice in the areas of management, irrigation, crop selection, and marketing could have benefited the project.

For the other two projects, the coordination with other Federal agencies appears to have been satisfactory. For example, the Albina Corporation received financial assistance from several Federal agencies including (1) \$350,000 of a \$400,000 bank loan guarantee from the Small Business Administration (SBA), (2) contracts for on-the-job training from the Department of Labor, and (3) \$45,000 from the Department of Commerce for a feasibility study.

Also the director of project Demeter informed us that funds would be loaned to low-income individuals to help them secure SBA business loans and that officials of SBA had been receptive to some of the proposed businesses.

Another Federal program, the Service Corps of Retired Executives (SCORE), which might have been helpful to several of the pilot projects, was not used by OEO.

SBA organized SCORE in 1964 to provide free counseling and guidance to small businesses and prospective small businesses. More than 3,800 retired business executives in 166 chapters located throughout the Nation belong to SCORE.

In September 1969 SBA and OEO prepared an interagency agreement to provide for SCORE volunteer counselors to render management and technical assistance to OEO grantees and delegate agencies. In June 1970 the interagency agreement had not yet been finalized and we brought the matter to the attention of SBA and OEO officials.

Subsequently, SBA and OEO officials met and decided that OEO grantees and delegate agencies were entitled to use the services of SCORE volunteers and that an interagency agreement was not necessary. In July 1970 OEO informed its grantees about the use of SCORE volunteers.

#### CONCLUSIONS

To help alleviate the critical need for managerial competence in establishing enterprises designed to aid the poor, OEO should seek maximum use of the private enterprise resources--which were generally not used in carrying out the six projects reviewed by us--and thereby obtain the benefits of business experience and know-how as a complement to Federal financial assistance. Also OEO should seek maximum cooperation of other Federal agencies, such as SBA, which can provide valuable financial and technical assistance to the projects sponsored by OEO.

#### RECOMMENDATIONS TO THE DIRECTOR, OEO

We recommend that OEO, in sponsoring future economic development projects, consider using the resources of private enterprise to obtain needed managerial competence and seek maximum cooperation of other Federal agencies which are in a position to provide financial and technical assistance to OEO-sponsored projects.

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The Deputy Director of OEO informed us that OEO subscribed to the concept of using the resources of private

industry and gave several examples where OEO had involved private industry in economic development projects. He stated, however, that success for these projects did not come easily as it was a new experience for the poor and business and commercial leaders to work together in economic development. The Deputy Director stated also that progress was being made in coordinating OEO's efforts with other Federal agencies.

The Administrator, SBA, informed us that SBA was always eager to cooperate to the extent possible with any Federal agency who would have a need for the type of assistance that the SBA could provide.



## CHAPTER 4

### IMPROVEMENTS NEEDED IN OEO'S

#### MANAGEMENT OF PILOT PROJECTS

Some of the problems encountered by the six economic development pilot projects indicated a need for more effective management of pilot projects by OEO headquarters staff. For example, OEO headquarters office project managers of five of the six projects did not have training and experience in business and therefore, we believe, were not technically capable to provide needed management assistance to the projects. Further, OEO did not establish a systematic monitoring and evaluation system for pilot projects to detect and resolve problems that impede the projects in achieving their objectives.

To evaluate the effectiveness of OEO's general procedures for managing pilot projects, we reviewed at OEO headquarters, in addition to the six projects discussed earlier, the Office of Program Development's management of 23 pilot projects randomly selected by us from a total of 136 projects funded in fiscal year 1969. These 23 pilot projects received Federal funds of \$7.2 million in fiscal years 1969 and 1970. We reviewed also two OEO internal study reports relating to OEO headquarters grant and contract practices and inquired into the activities of two consulting firms engaged by OEO to determine and disseminate the results of research and pilot projects and to establish an effective administrative information system.

Our review showed a need for improvements in (1) issuing and implementing adequate instructions, guidelines and procedures, (2) recruiting and training project managers, (3) reporting on project operations, (4) monitoring and evaluating such operations, and (5) determining and disseminating pilot project results. These matters are discussed in the following sections.

## INSTRUCTIONS, GUIDELINES, AND PROCEDURES

OEO had not issued specific instructions, guidelines, and procedures for managing and funding research and pilot project grants and contracts. As a result, grantees and OEO headquarters staff used instructions, guidelines, and procedures applicable to grants administered by OEO regional offices for funding and administering community action agencies which, we believe, were not suitable to pilot project grants administered by OEO headquarters. OEO recognized the need for pilot project guidelines and procedures and was correcting the situation at the completion of our review.

OEO's Community Action Program instructions to grantees, issued in February 1965, stated, in part, that additional guidelines were being prepared to provide information on policies and application procedures for research and pilot project grants and contracts. When these instructions were revised in August 1968, OEO again indicated that separate instructions would be issued for agencies applying for research and pilot project grants.

In March 1969 OEO issued a memorandum stating that grant application instructions for organizations applying for research and pilot project grants were being prepared but that it would be several weeks before they would be completed. These instructions, however, were not issued.

In January 1970 OEO established a headquarters grant-making practice work group to study the grant process of OEO headquarters offices including the Office of Program Development.

In its report, "Improving Headquarters Grant Practices in the Office of Economic Opportunity," issued in March 1970, the work group concluded that adequate formal procedures were not available for most headquarters grants--pilot project grants are made by headquarters offices--and that many headquarters analysts found that grant requirements and procedures suitable for grants funded by OEO regional offices--community action agency grants--were not suitable for grants administered by headquarters.

The work group recommended that policies, instructions, guidelines, procedures, and forms for all headquarters grants be incorporated in a set of manuals which would provide a single reference point for headquarters managers and grantees and that, as an interim measure, instructions should be prepared spelling out minimum grant requirements and procedures to be followed pending completion of the manuals.

In May 1970 OEO issued the interim grant instructions and procedures for funding headquarters grants, and in September 1970 the manuals were in the draft stage.

RECRUITING AND TRAINING OF  
PILOT PROJECT MANAGERS

At June 23, 1970, there were 34 project managers in OEO's Office of Program Development responsible for managing pilot projects. OEO's personnel files showed that most of the project managers did not have the educational backgrounds and/or experience necessary for managing the types of projects they were responsible for. Further, until fiscal year 1971, OEO had not established a training program for project managers and other staff in the Office of Program Development to help prepare them for managing pilot projects.

An OEO staff instruction stated that a project manager was a designated individual assigned the responsibility and delegated the authority for the centralized management of a particular headquarters project. The staff instruction stated, in part:

"It is mandatory that a Project Manager have a high degree of technical, professional, business and managerial competence, supplemented whenever possible by recent experience and training in the special requirements of project management."

In June 1969 an ad hoc committee, composed of representatives from the Department of Justice; the Bureau of the Budget; a national certified public accounting firm; and two assistants to the Director, OEO, was established to review OEO headquarters grants and contracts proposed for funding during June 1969.

In its July 1969 report, the ad hoc committee commented on the need for staff with experience in business and financial matters in administering economic development pilot projects to ensure that each project is thoroughly analyzed, giving attention to economic and cash-flow projections, alternative uses of funds within the projects' budgets, adequacy of feasibility studies, management skills required, and comparisons with experiences on comparable or prior projects.

In its report the ad hoc committee stated, in part:

"It is important that key personnel in this department have a strong background in business. The development of thoughtful policies and materials (i.e., manuals, outlines, checklists, model budgets) would be useful aids to analysts and grantees in constructing sound economic development projects. Considering the turnover of personnel, such materials would help to insure continuity in administration of these projects."

Of the 34 project managers, 11 were responsible for managing economic development pilot projects and, of these, only three had educational backgrounds in business administration or related subjects. Only one of the 11 managers had experience in private enterprise prior to being employed by OEO.

OEO did employ two business analysts in June 1969 and September 1969, respectively, to assist project managers in administering economic development pilot projects, but, as of October 1970, the ad hoc committee's recommended policies and guidelines had not been developed.

The previously mentioned OEO work group, set up to review headquarters grant-making practices, stated in its March 1970 report that there had been virtually no formal training of project managers in any aspects of the grant process even though OEO analysts had one of the most difficult analyst roles in Government.

The work group concluded:

"In effect, the typical OEO analyst is expected to be able to deal competently with social and political problems which perplex the country's top experts; to negotiate sensitive issues effectively with top-level local administrators; and, to be knowledgeable in financial and management matters. However, the analyst may be equipped with little qualification save enthusiasm for the program and almost certainly will receive no training and too little supervision to prepare him (or her) to meet these problems."

The work group recommended that OEO's Office of Administration, in cooperation with the Office of Operations, develop training programs in grant administration and management. The chief, Training and Career Development Branch, Office of Administration, informed us in October 1970 that he was in the process of establishing a training program for project managers and other Office of Program Development staff. The Deputy Director, OEO, informed us that a training program for project managers would be conducted during the summer of 1971.

## REPORTING

One of the main functions of pilot projects is to generate information on new and innovative approaches for alleviating poverty; therefore, reporting systems which provide OEO with the required feedback from its grantees should be an integral part of any pilot project. OEO, however, did not establish reporting guidelines for pilot projects as to the number of reports required or the type of information to be furnished. The determination of reporting format and contents was left largely to individual project managers.

OEO project managers required 22 of the 23 pilot projects to submit progress reports, but the number of reports and type of information to be submitted did not appear to be based on any specified requirements. For example, one project in operation for 13 months was required to submit and submitted only one progress report whereas another project in operation 14 months was required to submit and submitted monthly progress reports.

Only seven of the 22 projects submitted the number of progress reports required by the grant agreement and only five projects were presenting information in the reports to OEO which we believe was adequate for measuring project accomplishments. For example, one project in operation for 24 months was required to submit quarterly progress reports, but the project was furnishing OEO only one- or two-page letters that did not appear to adequately describe project accomplishments and problems.

## MONITORING AND EVALUATION

In its report to the Congress entitled "The Theory and the Fact," which summarized research and pilot project activities for fiscal year 1968, OEO indicated the importance of close monitoring and careful evaluation of such activities as follows:

"Given the experimental nature of research and demonstration projects, it is clear that each project should be closely monitored and carefully evaluated. This is accomplished in a number of

ways. Projects are monitored by staff analysts who are charged with responsibility for areas assigned to them. Site visits are made, narrative, statistical and fiscal reports are built into the project and reviewed, and frequently, expert consultants are called upon for outside opinion. Decisions, including basic ones to refund are based on these reports and evaluations.

"The importance of assuring that evaluation is done stems from the basic idea behind these projects--the testing of new program ideas which will be expanded if they work and abandoned if they do not. To make a solidly based judgment as to whether they work or not obviously requires that a sound and objective evaluation be an essential part of the demonstration process."

OEO has taken various actions to carry out the monitoring and evaluation functions described in the cited statement, but we believe that OEO has not provided headquarters personnel with adequate guidance as to the extent of such monitoring and evaluation of pilot projects.

### Monitoring

According to OEO, the primary purpose of monitoring pilot projects is to assess the managerial and operational efficiency of grantees. Projects are monitored generally by project managers through site visits and by consultants under contract with OEO. OEO, however, had not established guidelines on the extent that projects should be monitored by project managers and OEO consultants.

Although all except one of the 23 projects covered in our review had been visited by OEO project managers and/or monitored by consultants, some projects received insufficient coverage, considering the length of time that they had been in operation, whereas other projects were monitored much more frequently. For example, one project in operation for 49 months under four different OEO project managers had not been visited by consultants and had been visited only four times by project managers; trip reports had not been prepared by the project managers to assess the operational efficiency of this



project. In another case, one project in operation for 39 months had been visited 11 times by project managers and eight times by consultants. The project managers, however, had not prepared any trip reports on their visits.

Most project managers had not prepared reports on their visits. We believe that there is a special need for information and timely reports on site visits to maintain continuity in project management because of the turnover of project managers assigned to individual projects. For the 23 projects that we reviewed, all but two experienced changes in project managers; five had three managers, two had four managers, and one had five managers.

## Evaluation

According to OEO, evaluation is a crucial tool in the process of testing innovative projects and serves two basic purposes.

- To ascertain the progress, competence, and effectiveness of a particular OEO-funded project or group of projects in a problem area.
- To assess the potential impact of the project findings in order that what has been learned may be utilized for further program development.

Because OEO had not established procedures and guidelines for the systematic evaluation of pilot projects, project managers were uncertain when projects should be evaluated. Some projects were never formally evaluated whereas others were frequently evaluated.

As of June 30, 1970, 16 of the 23 pilot projects which we reviewed were evaluated by consultants under OEO contracts, and arrangements had been made for evaluations by OEO contractors of two of the other seven projects.

The number of evaluations made by OEO contractors for the 16 projects did not appear to be based on consistent criteria such as months in operation, progress toward meeting established milestones, completion of grant, etc. For example, one project which was in operation for 15 months was evaluated nine times and another project which was in operation for 29 months was evaluated only once. Another project which was in operation for 49 months and under the responsibility of four different project managers had not been evaluated until the fourth project manager assumed responsibility for the project.

The ad hoc committee, established to review the funding of OEO headquarters grants and contracts, stated in its July 1969 report that the problems associated with the monitoring and evaluation function were numerous and substantial. The committee further stated that (1) insufficient attention had been given to the selection of monitors and evaluators and

(2) as inadequate as the evaluations may have been, it had been noted that, in some instances, program personnel were making decisions or recommendations without either analyzing the monitoring and evaluation reports and responding to the deficiencies noted therein or taking remedial action where valid criticisms were made.

Under OEO's reorganization, the Planning and Evaluation Division, Office of Program Development, assumed some of the monitoring and evaluation tasks for which project managers had been responsible and became responsible for developing new evaluation capabilities. In a March 1970 memorandum, the Planning and Evaluation Division recognized OEO's evaluation problems and stated that "evaluation must be an integral part of planning, development, and operation" of all pilot projects. The Division identified several areas where it intended to improve the Office of Program Development's monitoring and evaluation efforts.

In September 1970 the Planning and Evaluation Division prepared draft guidelines and instructions for planning and evaluating research and pilot projects.

The draft instructions identified certain characteristics that pilot projects should have. Included were:

1. The objectives of the project should be in a researchable manner.
2. The objectives should be understood and agreed upon by the sponsors, administrators, and evaluators.
3. An appropriate evaluation design should be readily derivable from the project design.

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We believe that systematic monitoring and in-depth evaluation of pilot projects provides a means for assessing progress in achieving project objectives and for identifying and obtaining correction of management weaknesses. The need for promptly implementing an effective monitoring and evaluation process is emphasized by the 1967 amendments to the Economic Opportunity Act which specifically require that OEO

provide for continuing evaluation of antipoverty programs, including their effectiveness in achieving stated goals, their impact on related programs, and their structure and mechanisms for the delivery of services.

## DETERMINING AND DISSEMINATING PROJECT RESULTS

OEO recognized that it had not documented the results of a large number of its research and pilot projects. In an attempt to determine and disseminate the results of research and pilot projects and to establish an effective administrative information system, OEO entered into contracts with two consulting firms, E. F. Shelley and Company, Inc., and Urban Systems, Inc., both of which had offices in Washington, D.C.

OEO awarded E. F. Shelley two contracts--one in January 1968 and one in December 1968--totaling about \$344,000, to determine and summarize research and pilot project findings, to analyze the findings for possible legislative action, to determine the effects on legislative and administrative actions at the State and local levels, and to design and implement an administrative information system.

In June 1968 OEO awarded Urban Systems a contract at an estimated cost of \$297,000 to assist OEO in its efforts to collect, analyze, summarize, disseminate, and ensure the utilization of findings obtained from research and pilot projects.

At the completion of its contract efforts in June 1970, E. F. Shelley had (1) retrieved documents on 178 research and pilot projects, (2) prepared project profiles, and (3) implemented the administrative information system containing basic information on research and pilot projects grants and contracts.

We found that the administrative information system established by E. F. Shelley was being utilized very little by Office of Program Development staff in managing pilot projects. OEO officials informed us that the contractor's information system somewhat duplicated OEO's existing information system and that they were investigating the possibility of incorporating the information on research and pilot projects contained in the Shelley system into OEO's information system.

Urban Systems contract activities included locating, analyzing, and packaging the results of 72 research and

pilot projects and preparing 50 newsletters on project operations for dissemination to grantees.

The Chief, Evaluation Branch, Office of Program Development, informed us that a few of the newsletters developed by Urban Systems were distributed to grantees but that the work was not used by OEO as much as had been contemplated.

In certain respects, the efforts of the two contractors were duplicative in that each contractor attempted to collect and analyze information on the results of some of the same research and pilot projects and to prepare project profiles for dissemination. Our comparison of the 72 research and pilot project profiles prepared by Urban Systems with the 178 profiles prepared by E. F. Shelley showed that, for 35 projects, profiles had been prepared by both contractors. Additionally, both contractors studied the documentation available and prepared listings of available documents on most of the research and pilot projects.

In its final report dated November 30, 1969, Urban Systems concluded that the OEO management team should make a strong commitment toward establishing an efficient dissemination and utilization system if the full value of past and future pilot projects is to be realized and that the data bank of information on pilot projects at OEO was, by and large, inadequate for utilization by audiences outside the agency.

Urban Systems reported that, of 513 completed project files it reviewed, 106 contained final reports; 36 contained substantial documentation but no final reports; 126 contained progress, quarterly, or interim reports; and 245 contained only copies of proposals or negotiated contracts.

Similarly, E. F. Shelley reported that project files for 284 projects were missing and, of the 406 files that were located, 268 had only partial documentation, of which 128 had no report information.

We also noted that OEO had not been maintaining adequate grantee information files necessary to support the decisionmaking process by which grantees are evaluated and approved and to provide for the dissemination of project

results. OEO officials informed us that they were taking action to improve the maintenance of grantee information files and the dissemination of projects results.

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### CONCLUSIONS

In general, OEO needs to improve its management of pilot projects. OEO's task force, established to review the headquarters grant practices, recognized that improvements were needed in the management of headquarters grants, as did its consultants and the June 1969 ad hoc committee. OEO has initiated certain corrective actions in this area. Because of the significant amounts of funds being allocated toward finding new and innovative methods to alleviate poverty through pilot projects and their importance in the overall OEO mission, there is a need for timely completion of the corrective actions to ensure that such projects are efficiently and effectively managed.

### RECOMMENDATIONS TO THE DIRECTOR, OEO

We recommend that, through the Office of Program Development, OEO

- finalize and implement instructions, guidelines, and procedures for managing and funding research and pilot project grants;
- recruit and employ personnel having educational and vocational backgrounds in business to assist in the management of economic development pilot projects;
- establish a training program for pilot project managers;
- establish pilot project reporting requirements as to the number of reports required and the type of information to be furnished;
- establish an effective monitoring and evaluation system to ensure that meaningful information will flow to OEO throughout the life of pilot projects to aid

in managing projects and to enable valid analysis of projects results; and

- improve OEO's efforts of disseminating research and pilot project results.

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The Deputy Director of OEO informed us that OEO was in agreement with these recommendations and that actions had been or would be taken to implement them.

Regarding the development and implementation of instructions, guidelines, and procedures, the Deputy Director stated that, over the last several months, the available staff for this activity had been significantly increased and that, over the coming months, OEO would be strengthening management systems in a number of ways, including

- completing new grant application forms for research and pilot project grants with accompanying appropriate instructions,
- reviewing the entire set of OEO instructions to grantees and determining those applicable to Office of Program Development grantees,
- establishing a series of Office of Program Development staff instructions, and
- developing a method to provide for systematic comparisons of grantees' progress against plans.

In addition, the Deputy Director informed us that the Director, Office of Program Development, had established task forces to develop new procedures governing a number of aspects of grant funding and management.

On recruiting and employing personnel with educational and vocational backgrounds in business, the Deputy Director informed us that aggressive efforts were under way to employ such personnel.



On establishing a training program, the Deputy Director stated that, although progress had not been as substantial in this area, training of OEO staff and project staff was receiving major attention and that a training session for OEO project managers on project monitoring would be conducted during the summer of 1971.

On establishing pilot project reporting requirements, the Deputy Director stated that instructions were being developed for general guidance to project managers but that specific uniform requirements were not considered appropriate.

On establishing an effective monitoring system, the Deputy Director informed us that this would be accomplished in connection with implementing the other recommendations made in our report inasmuch as clarifying grantee reporting requirements, training project managers, making it possible to compare progress against project plans, and other improvements are parts of such a monitoring system. He also stated that OEO was working toward developing a warning system which would provide key OEO personnel with information when there was a need to take action.

With respect to evaluation of projects, the Deputy Director pointed out that, with the establishment of a separate evaluation division within the Office of Program Development, an effective evaluation system was then in place and staffed with eight highly professional personnel responsible for designing evaluations of projects and letting and administering contracts to conduct those evaluations.

In regard to disseminating research and pilot project results, the Deputy Director informed us that OEO was reconsidering the way in which project results were utilized and that new procedures would be oriented toward getting research and demonstration results into the hands of those members of society who were likely to find them useful.

## CHAPTER 5

### NEED FOR IMPROVED CONTROLS

#### OVER THE EXPENDITURES OF GRANT FUNDS

To promote an effective and proper use of grant funds, OEO requires that OEO grantees have adequate internal controls and accounting systems and be audited periodically by a certified public accountant (CPA) or a licensed public accountant. The OEO Audit Division reviews reports on audits of grantees' activities and prepares letters to the responsible OEO officials summarizing the results of such audits.

Our examination revealed that three of the six pilot projects expended about \$129,000 in grant funds for items which appeared to be of questionable applicability and justification for charging the respective grants. Also a CPA who had audited one of the three projects questioned in his audit report the allowability of additional expenditures totaling about \$21,000. We referred the questionable expenditures to OEO's regional auditors for appropriate action.

OEO auditors subsequently audited the expenditures claimed by three of the six grantees and questioned additional expenditures of grant funds for two of the projects totaling about \$49,000.

Our examination and reviews of CPA reports further revealed that, for five of the six projects, improvements were needed in the grantees' accounting procedures and internal control to provide for greater assurance that expenditures of funds were in compliance with OEO requirements.

Although it is a grantee's responsibility to comply with the terms of its grants and OEO instructions relating to the establishment of an acceptable system of control over, and administration of, grant funds, OEO has a responsibility to provide sufficient surveillance over, and assistance to, a grantee to help ensure that grant funds are expended properly.

Expenditures of over \$123,000 for salaries and related costs were subject to question because (1) grantees did not obtain OEO approval as required by OEO regulations for granting salary increases of more than 20 percent, (2) expenditures were made for personnel services which had not been budgeted or justified, (3) stipend payments were made to ineligible participants, and (4) payments were made to personnel performing services which were unrelated to achieving the objectives of the project.

Other expenditures of about \$76,000 found to be subject to question related to travel, consultant and contract services, space costs, equipment, and other items which were not budgeted or were not adequately justified.

We also noted numerous errors and discrepancies in five of the projects in the administration and maintenance of personnel, accounting, property, and loan records, that were indicative of inadequate financial management practices of the grantees.

#### CONCLUSION

Weaknesses in the control over the expenditure of grant funds in the case of five of the six projects reviewed by us indicate the need for better financial management practices by grantee project officials and greater efforts toward compliance with Federal grant requirements. There is a continuing need for OEO to help ensure that grantees are exercising appropriate control over project funds.

#### RECOMMENDATIONS TO THE DIRECTOR, OEO

We recommend that OEO ensure that pilot project grantees improve their management of grant funds and disallow unauthorized expenditures of grant funds.

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The Deputy Director of OEO informed us that the first step, which would soon be accomplished, in ensuring adherence to OEO requirements would be to clarify for the grantees what the requirements were. The Deputy Director stated that, in addition, the proposed training program for project managers

would include training on effective monitoring of financial administration.

Regarding the disallowance of unauthorized expenditures of grant funds, the Deputy Director informed us that this was a policy regularly pursued by OEO. The Deputy Director also stated that, with respect to the costs questioned by us involving three of the pilot projects, OEO disallowed the costs for one of the projects and the other two projects were being audited and that the questionable expenditures referred by us to OEO's regional auditors would be considered in connection with the audits.

**APPENDIXES**

EXECUTIVE OFFICE OF THE PRESIDENT  
WASHINGTON, D.C. 20506

OFFICE OF ECONOMIC  
**OPPORTUNITY**

APR 21 1971

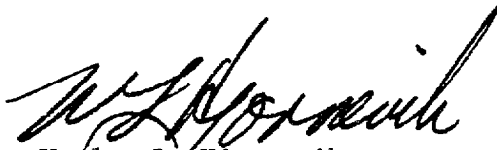
Mr. Henry Eschwege  
Associate Director  
United States General  
Accounting Office  
Washington, D. C. 20548

Dear Mr. Eschwege:

I am pleased to enclose the comments of the Office of Economic Opportunity on your proposed report on "Improvements Needed in the Management of Economic Development Pilot Projects."

I appreciate having had the opportunity of submitting these comments.

Sincerely,



Wesley L. Hjernevik  
Deputy Director  
Enclosure

## APPENDIX I

### OFFICE OF ECONOMIC OPPORTUNITY RESPONSE TO DRAFT GAO REPORT "IMPROVEMENTS NEEDED IN MANAGEMENT OF ECONOMIC DEVELOPMENT PILOT PROJECTS"

#### GENERAL COMMENTS

The GAO report is an accurate picture of the status of OEO's management of economic development pilot projects for the period covered by the report. The conclusions reached by GAO are reasonable and provide an excellent guidepost to OEO in its efforts to improve the economic development pilot projects and OEO's management of them. The recommendations, almost without exception, are sound in our view and are currently being instituted by OEO in its desire to improve the agency's activities in the field of economic development pilot projects.

In this response to the GAO report, we are primarily addressing our comments to the recommendations which were made in the body of that report. In doing so, we also touch upon the conclusions made by GAO, as these form the basis for their recommendations.

#### CHAPTER 1

Although this chapter does not contain any formal recommendations, we wish to comment that GAO's description of the legislative and programmatic basis for OEO's activities in economic development pilot projects accurately reflects the understanding of OEO in this sphere of the agency's activity.

#### CHAPTER 2

GAO stresses the need for .....

1. "Carefully planning and determining the feasibility of proposed projects and the organizational and managerial capacity of the grantees to carry out the projects."

A structured review process for grantee applications has been established. It begins with a field visit by the OEO project manager and his supervisor. At that time an assessment is made of the organizational and

managerial capacities of the grantee, whether the goals are realistic, the understanding of and support for the project by the community, and other local factors which will have a bearing on the project's success. All applications, whether for new projects or for refunding, are reviewed by the Business Analysis Section of the Economic Development Division to judge the viability of the business components. Special conditions are written to provide benchmarks for achievement and safeguards for the orderly and effective management and operation of the project. Further review of all proposals is made by a Project Review Board made up of senior staff representatives of each Division of the Office of Program Development, as well as representatives of other offices in OEO. Their review serves two purposes: (1) to give final staff judgement on the merits of the proposal and (2) to be certain that the proposal is in keeping with the overall program directions and policies of the Office of Program Development. OEO General Counsel then makes its review.

In the ongoing monitoring of a project, the OEO project manager makes field trips to the project at least once each quarter. At that time, he assesses both the organization and management of business development and lends assistance to the grantee. His reports of these trips are given careful review. For Section 232 grantees, a contract let with Checchi Associates provides technical assistance in organization, management and business development to the grantees.

All business ventures by economic development grantees must have the approval of OEO before they are undertaken. Frequently, the grantee



## APPENDIX I

uses Checchi for technical assistance in the development of these ventures. Help often comes from the local business and financial communities. On each venture, the grantee submits a feasibility study which is reviewed by the project manager, his supervisor and the Business Analysis Section. Upon their favorable recommendation, the Director of the Office of Program Development authorizes the disbursement of funds for the individual venture. (Frequently a business venture is only partially financed with OEO funds. Money also comes from banks, SBA guaranteed loans and similar sources. Thus, this review is a further check of the business venture's viability.)

The need for adequate managerial capability on the part of grantees is critically important. With the OEO type of economic development, management must have multiple abilities not always needed in regular business ventures -- or at least not needed in the same degrees. Management must be able to work with the poor and to assist them in having responsibilities in the decision making process. Management must also have the necessary skills to make the project's ventures financially successful. The selection of the chief executive officer on all projects, and often, its key staff, requires OEO's approval. The technical assistance contractor gives both management guidance and training to grantee staffs. In the periodic meetings called by OEO economic development grantees, major attention is devoted to management problems and techniques.

2. "...reaching a clear understanding with grantees upon approval of such projects on carrying out approved project plans."

The review system, particularly the field review, serves as a means for obtaining, in advance, a clear understanding by the grantee

of the project plans and OEO's expectations of them. In addition, special conditions which serve as benchmarks for grantee performance are developed for each grant. Finally, at least once a quarter, field visits are made by the OEO project manager. These visits are critical in guiding the grantee toward approved project plans.

3. "...making evaluations at established interim check points or milestones to detect problems in meeting interim goals so as to minimize the consequences of the problems, and

4. "...taking prompt and effective action toward resolving obstacles affecting accomplishments."

In the application, the grantee is required to build into his project milestones of achievement. The purpose of the field review is, in part, to determine whether these milestones are realistic and to obtain a measure of how local conditions will affect them. The special conditions reinforce these milestones and also set their own. The quarterly field visits to the projects by OEO project managers both identify problems and remedy them.

The policies and guidelines for the development, management and operation of the economic development projects, in large measure, have been influenced by and adapted from policies and guidelines for community action programs. However, there are substantive differences between community action and economic development. Guidelines and policies specifically directed at economic development projects are being developed. They will assist Economic Development Division staff by spelling out specific requirements for grantees. They will also make management more systematic and will give staff additional time to deal with substantive operational problems.

### CHAPTER 3

GAO recommends that:

## APPENDIX I

"...OEO, in sponsoring future economic development projects, consider using the resources of private enterprise to obtain needed managerial competence and seek maximum cooperation of other Federal agencies which are in a position to provide financial and technical assistance to OEO-sponsored projects."

We, of course, subscribe to this concept. The involvement of industry in our I-D program is being tested in a variety of ways. For example, in the development of a wood products plant in Alabama, the local purchaser of the products worked with the grantee in product improvement so that the products would have market advantages. In New York, the grantee bought out an established business with management staying on. Franchise operations are being used in a number of places. Partnerships with industry sharing in ownership is being tested in New York. One of the principal devices for involving industry and commerce in the special impact program is the OEO requirement that industry be represented on the project's governing board. But success does not come easily. It is a new experience for the poor and business and commercial leaders to work together in economic development. Once working relationships and trust between the two groups have been established, the system holds promise for long term benefits.

There are few parallel examples of industry cooperation in the 232 grants. In Tennessee, for example, a grantee is buying into businesses with the former owners retaining an equity. But as a general proposition, the 232 grants are predominantly rural southern enterprises, where we frequently find surrounding circumstances not conducive to cooperation with local established businesses.

Progress is being made in coordinating efforts with other federal agencies. The Director of OPD's Economic Development Division is a member

of the Federal Inter-Agency Coordinating Committee, Office of Minority Business Enterprise, Department of Commerce. Two projects on Indian reservations, one in North Dakota, the other in the State of Washington, were jointly developed by OEO and the Economic Development Administration. HUD is making exception in its own regulations so that the project in North Dakota may have major advantages in securing contracts on Indian reservations for the building of low cost housing. This may also apply to South Dakota. The Small Business Administration is giving help so that ventures may receive SBA guarantee loans. Work is currently underway with both GSA and SBA so that projects may get a greater share of the 8-A set-aside contracts.

#### CHAPTER 4

GAO recommends that OEO:

"...finalize and implement instructions, guidelines, and procedures for managing and funding research and pilot project grants."

The development and implementation of instructions, guidelines, and procedures is, of course, a continuing process. Over the last several months, the available staff for this kind of work has been significantly increased through additions to both the Planning Branch and the OPD Director's office. Over the coming months, we will be strengthening management systems in a number of ways. These include:

a. New grant application forms, appropriate for research and pilot project grants, have been completed and sent to OMB for clearance.

Accompanying instructions are in the final stages of review.

b. The entire set of OEO Instructions to grantees is being reviewed to determine which ones should be made applicable to OPD grantees. This review, which is in its final stages, will, for the first time, provide a comprehensive set of regulations applicable to OPD grantees. At this

## APPENDIX I

time, it does not appear that there will be any major policy gaps left unfilled after the process is complete.

c. A series of OPD Staff Instructions are being prepared. This series, for the first time, will provide OPD staff with a systematically maintained set of instructions on matters of particular concern to OPD. The first of these was issued in May of 1970 and provided guidance on preparing proposed grants. Other staff instructions, which are being prepared, will: (1) revise the narrative portion of the staff memorandum which accompanies the proposed grant; (2) provide guidance on the nature of reports which are desired from grantees; (3) provide guidance on the frequency of site visits to grantee projects by OEO personnel; (4) clarify the procedures for winding up the affairs of grants which have expired or terminated; and (5) set forth a clear statement of the mission of OPD.

d. Both the new application forms and the revised staff instructions will require the development of a schedule of activities under a proposed grant to provide a systematic basis for later comparisons of progress against plans. The guidance on grantee reporting will be largely aimed at providing information needed to make such comparisons.

In addition, the Director of OPD has established a number of task forces to develop new procedures governing a number of aspects of grant funding and management. These include questions of selection of program areas, design of experimental and demonstration projects, selection of grantees, evaluation of performance, and utilization of results.

GAO recommends that OEO:

"...recruit and employ personnel with educational and vocational backgrounds in business to assist in the management of economic development pilot projects;" and..."establish a training program for pilot project managers."

Agressive efforts are underway to employ more personnel with educational and vocational backgrounds in business. The new Director of the Economic Development Division has broad knowledge in business affairs. Special emphasis is being given to recruiting people with similar backgrounds in our Business Analysis Section. As staff vacancies occur, our intention is to recruit individuals with more extensive backgrounds in business in order to provide better balance. Toward this end, we have been conducting interviews at MIT, Harvard, and other well-known institutions.

In project management, there is a deliberate trend to select people with business experience for the chief executive officer's position and to fill subordinate positions with people experienced in community affairs and other skills needed in economic development efforts among the poor.

While progress has not been as substantial in this area, training of both OEO staff and project staff is receiving major attention. A training session for OEO project managers on the Peat, Marwick and Mitchell monitoring system will be conducted this summer. Currently, negotiations are underway with schools of Business Administration to provide a direct relationship with OEO's Economic Development Division in order to give both OEO and grantee staff technical assistance and training.

GAO recommends that OEO:

"...establish pilot project reporting requirements as to the number of reports required and the type of information to be furnished."

As indicated above, the instruction on reporting requirements is being developed. However, in view of the wide variety of projects funded with research and pilot funds, it does not seem practicable to make uniform such requirements. Our approach, therefore, will be to give general guidance to project managers on how to tailor reporting require-

## APPENDIX I

ments to the circumstances of the particular grant. In considering the proposed grant, the OPD project review board will be required to focus on the report requirements proposed by the project manager. We believe that such a system holds the greatest promise for getting grantee progress reports which will be useful in the administration of the grant.

GAO recommends that OEO:

"...establish an effective monitoring and evaluation system to ensure that meaningful information will flow to OEO throughout the life of pilot projects to aid in managing projects and to enable valid analysis of project results."

In dealing with this recommendation, it is important to clarify what is meant by "monitoring" and what is meant by "evaluation." The labels are not particularly important, but in a research and demonstration context, there are two quite distinct functions to be performed. Information obtained as part of what we call "monitoring" is obtained to serve a purpose that is essentially a part of project management. It is concerned with whether a grantee's program is proceeding according to plan and in a prudent and intelligent manner. Information obtained as part of what we call "evaluation" is concerned with whether the program is having the desired impact upon conditions of poverty. An experimental job training program, for example, may be very efficiently run and entirely in accordance with its plans, but nevertheless may be ineffectual in helping poor people achieve higher incomes through employment.

Considering monitoring information in the context described above (as an integral part of project management), we believe that such information should be obtained whenever possible by OEO personnel rather than by contractor personnel. The establishment of an effective monitoring system is not, in our view, distinct from the other recommendations made in the report. Clarifying grantee reporting requirements, training project managers, making it possible to compare progress against plans, and the like are parts of such a monitoring system.

We are, at the same time, working to develop a warning system which will provide the OPD Director and his Division directors with information when there is a failure to file reports, too long a time lag between site visits to the the project by OEO personnel, or similar lapses.

With respect to evaluation, we believe that an effective system is now in place. OPD has a separate Evaluation Branch with eight highly qualified professional personnel. The principal duties of this branch are to design evaluations of OPD programs and to let and administer contracts to perform those evaluations. Not all OPD projects are now the subject of independent evaluations, since the Evaluations Branch has not been able to catch up with all projects funded before it was established in the 1969 reorganization. However, we are rapidly expanding the degree of coverage.

GAO recommends that OEO:

"...improve OEO's efforts of disseminating research and pilot project results in accordance with established procedures."

As indicated above, we are reconsidering the ways in which research and pilot project results are utilized. We anticipate that this review will produce some substantial modification of the utilization procedures prescribed in 1968. The new procedures will be oriented more toward getting research and demonstration results into the hands of those members of society who are likely to find them useful. That does not foreclose, of course, the library-oriented approach of the 1968 instruction. But that approach should constitute only a minor portion of the utilization system.

With respect to past compliance with the January 1968 instruction, we do not believe the criticism in the GAO draft report is entirely well taken. A literal reading of the instruction does seem to suggest that it applies to every report that might be filed by an OEO grantee or contractor.



## APPENDIX I

[See GAO note.]

### CHAPTER 5

GAO recommends that OEO:

"...initiate the necessary action to help ensure that pilot project grantees adhere to OEO requirements for administering grant funds by ensuring that grantees improve their management of grant funds, and by requiring OEO auditors and project managers to effectively monitor grantees' financial transactions."

We believe that one of the reasons for failure to adhere to OEO requirements in the past has been a lack of clarity about which regulations apply to OPD grantees. The first step, therefore, in ensuring adherence to OEO requirements is clarifying for the grantees what those requirements are. This will soon be accomplished, as indicated above. In addition, the proposed program of training for project managers will include training with respect to the effective monitoring of financial administration.

[See GAO note.]

[See GAO note.]

GAO recommends that OEO:

"...require that unauthorized expenditures of grant funds be disallowed."

This policy is regularly pursued by OEO. Specifically, in the case of the three pilot projects with respect to which costs were questioned by GAO, the status is as follows:

Watts Labor Community Action Committee. The General Accounting Office letter to the OEO Regional Auditor was dated January 19, 1970. On March 5, 1970, a Federal audit of this grantee was completed. The GAO comments were taken into account in the Federal audit. A total of \$60,992 was disallowed by letter of February 18, 1971, subject to the grantee's right to submit additional documentation by April 15. At a meeting with the grantee on April 9, that date was extended to June 8.

APPENDIX I

Migrant Rural Action Project. This project is now undergoing a final audit. The costs questioned by the GAO will be considered in connection with this audit.

Southeast Alabama Self-Help Association. This project also is currently under audit. The costs questioned by GAO again will be taken into consideration.

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GAO note: Deleted comments referred to material discussed in our draft report but not included in our final report.



**THE ASSISTANT SECRETARY OF COMMERCE**  
Washington, D.C. 20230

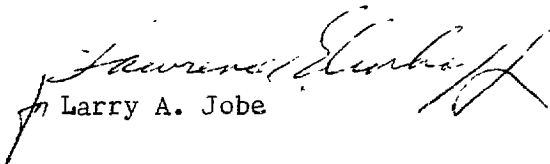
Mr. Max A. Neuwirth  
Associate Director  
Civil Division  
General Accounting Office  
Washington, D. C. 20548

Dear Mr. Neuwirth:

This is in reply to Mr. Eschwege's letter of January 28, 1971, requesting comments on a proposed report to the Congress on the "Improvements Needed In The Management of Economic Development Pilot Projects, Office of Economic Opportunity."

We have reviewed the comments of the Economic Development Administration and believe that they are appropriately responsive to the EDA related matters discussed in the report.

Sincerely yours,

  
Larry A. Jobe

Enclosures



THE ASSISTANT SECRETARY OF COMMERCE  
Washington, D.C. 20230

MAR 15 1971

MEMORANDUM FOR LARRY A. JOBE

SUBJECT: Comments on GAO Audit of OEO Economic  
Development Pilot Projects

A letter from Mr. Henry Eschwege, Associate Director of the General Accounting Office, dated January 28, 1971 forwarded sections of the subject audit, and indicated that the Secretary of Commerce had been requested to forward Commerce Department comments on the draft. The following EDA comment is offered.

On page 21 of the draft, the following statement is made: "As a result, ECCO requested a \$156,800 grant from the Economic Development Administration, Department of Commerce to staff the corporation but the agency turned down the request since the Columbus, Ohio area was not designated for assistance because of the low rate of unemployment."

ECCO's request was turned down not because Columbus is not a designated area per se (technical assistance grants are not limited to designated areas), but because the shortage of funds in the face of many requests for assistance led us in that fiscal year to concentrate our limited resources for our urban technical assistance effort to on-going activities in currently designated cities. A letter from EDA to the ECCO dated November 25, 1969 states in part as follows: "We have attempted to maximize the impact of our small budget by maintaining the momentum of on-going activities; and therefore, have been reluctant to expand our technical assistance efforts beyond these non-designated cities in which we are presently working." Thus, the decision with regard to the ECCO request was made on the basis of

2.

priorities for the use of limited resources and not on the basis of designation as is implied by the GAO report.

A handwritten signature in black ink, appearing to read 'R. Podesta', is centered above the typed name.

Robert A. Podesta  
Assistant Secretary  
for Economic Development



**U.S. DEPARTMENT OF COMMERCE**  
**Office of the Secretary**  
Washington, D.C. 20230

MAR 1 1971

Mr. Henry Eschwege  
Associate Director  
Civil Division  
U.S. General Accounting Office  
Washington, D.C. 20548

Dear Mr. Eschwege:

The Office of Minority Business Enterprise has reviewed the General Accounting Office's draft report to the Congress on the need for improved management of the Office of Economic Opportunity's economic development pilot projects. OMBE has been involved with only one of the cited pilot projects and is therefore unable to effectively evaluate GAO's report and conclusions.

The firm with which we are familiar is Albina Manufacturing Corporation, Portland, Oregon. Your report on Albina, to our knowledge, is accurate and well documented.

Sincerely,

A handwritten signature in cursive script that reads "Abraham S. Venable".

Abraham S. Venable  
Director  
Office of Minority Business Enterprise

UNITED STATES DEPARTMENT OF AGRICULTURE  
FARMERS HOME ADMINISTRATION  
WASHINGTON, D.C. 20250

OFFICE OF THE ADMINISTRATOR

FEB 8 1971

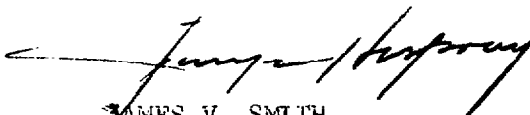
Mr. Bernard Sacks  
Assistant Director  
Civil Division  
General Accounting Office  
Washington, D. C.

Dear Mr. Sacks:

We appreciate the opportunity to review the draft of your report to the Congress on "Improvements Needed in Management of Economic Development Pilot Projects, Office of Economic Opportunity."

Although we are referred to in the report, we were not involved in the planning of the project and, therefore, we have no comments to offer.

Sincerely,

  
JAMES V. SMITH  
Administrator





U.S. GOVERNMENT  
SMALL BUSINESS ADMINISTRATION  
WASHINGTON, D.C. 20416

OFFICE OF THE ADMINISTRATOR

MAR 9 1971

Mr. Henry Eschwege  
Associate Director, Civil Division  
United States General Accounting Office  
Washington, D. C. 20548

Dear Mr. Eschwege:


This is in response to your letter of January 28, 1971, which requested our comments on sections of your proposed report to the Congress, titled, "Improvements Needed in Management of Economic Development Pilot Projects," Office of Economic Opportunity.

We have reviewed the report sections and offer the following comments:

1. The statements on pages 16 and 47 concerning SBA should be changed to "The Small Business Administration guaranteed 87½% or \$350,000, of a \$400,000 bank loan, and did lease the building to Albina Manufacturing Corporation for a period of 18 months with an option to purchase. The monthly rental was \$2,750 and the option of purchase was \$300,000." [See GAO note.]
2. With regard to the SCORE statistics on pages 4 and 47, our most recent reports show over 3,800 volunteers and the chapters have been consolidated to 166. [See GAO note.]
3. Concerning the conclusion and recommendation on page 48, the SBA is always anxious to cooperate to the extent possible, as we have in the past, with any Federal agency who would have a need for the type of assistance that the SBA can provide.

We appreciate the opportunity to review and comment on this report, and if you need any additional information please advise.

Sincerely,

  
Thomas S. Kleppe  
Administrator

GAO note: Final report revised accordingly.

PRINCIPAL OFFICIALS OF THE  
OFFICE OF ECONOMIC OPPORTUNITY  
RESPONSIBLE FOR THE ADMINISTRATION OF ACTIVITIES  
DISCUSSED IN THIS REPORT

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
DIRECTOR:		
Frank C. Carlucci	Dec. 1970	Present
Donald Rumsfeld	May 1969	Dec. 1970
Bertrand M. Harding (acting)	Mar. 1968	May 1969
R. Sargent Shriver	Oct. 1964	Mar. 1968
ASSISTANT DIRECTOR FOR COMMUNITY ACTION PROGRAM (note a):		
Theodore M. Berry	Apr. 1965	Sept. 1969
ASSISTANT DIRECTOR FOR PROGRAM DEVELOPMENT:		
Alfred H. Taylor (acting)	June 1971	Present
Joe P. Maldonado	Aug. 1970	June 1971
Marvin J. Feldman	Jan. 1970	Aug. 1970
Robert Perrin (acting)	Sept. 1969	Jan. 1970

<sup>a</sup>In September 1969 this position was terminated as an organizational entity and responsibility for administering pilot projects was assigned to the Office of Program Development, a newly created office.

Copies of this report are available from the U. S. General Accounting Office, Room 6417, 441 G Street, N W., Washington, D.C., 20548.

Copies are provided without charge to Members of Congress, congressional committee staff members, Government officials, members of the press, college libraries, faculty members and students. The price to the general public is \$1.00 a copy. Orders should be accompanied by cash or check.