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Review Of The San Jose, California, Model Cities Program

B-171500

Department of Housing and Urban Development

BY THE COMPTROLLER GENERAL OF THE UNITED STATES

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APRIL 19, 1974

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

B-171500

A2 REP

C1 + R1

To The Honorable Burt L. Talcott
C2 + and The Honorable Charles S. Gubser
R2 REP

In accordance with your requests of April 5 and April 10, 1973, respectively, we have reviewed the Model Cities Program in San Jose, California.

As requested by your offices, we did not obtain written comments from the Department of Housing and Urban Development, the city of San Jose, or other affected agencies on the matters discussed in this report. However, during our review we discussed these matters with officials of these agencies and incorporated their views where appropriate.

We will release this report only if you agree or publicly announce its contents. We want to direct your attention to the fact that this report contains recommendations to the Secretary of Housing and Urban Development. (See p. 14.) As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions he has taken on our recommendations to the House and Senate Committees on Government Operations not later than 60 days after the date of the report, and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report. Your release of this report will enable us to send the report to the Secretary and the four committees for the purpose of setting in motion the requirements of section 236.

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Sincerely yours,

Elmer B. Staats

Comptroller General
of the United States

Contents

ABBREVIATIONS

CDA	City Demonstration Agency
GAO	General Accounting Office
HUD	Department of Housing and Urban Development
MCSJ	Model Cities of San Jose, Inc.
MIS	CDA's Management Information Systems
OIP	Olinder Industrial Park
NDP	Neighborhood Development Program

COMPTROLLER GENERAL'S REPORT
TO THE HONORABLE BURT L. TALCOTT
AND THE HONORABLE CHARLES S. GUBSER
HOUSE OF REPRESENTATIVES

REVIEW OF THE SAN JOSE, CALIFORNIA,
MODEL CITIES PROGRAM
Department of Housing and
Urban Development B-171500 23

D I G E S T

WHY THE REVIEW WAS MADE

Congressmen Burt L. Talcott and Charles S. Gubser asked GAO to review the operations of the Model Cities Program in San Jose, California.

GAO was asked to review how well the city monitored the activities of three Model Cities agencies:

2 --Model Cities of San Jose, Inc.; P 1481

3 --Economic Progress for All, Inc.; and D 1482

4 --Santa Clara Plan, Inc. D 1483

GAO also was asked to examine these agencies' activities and, where practicable, to develop information on (1) the propriety of their expenditures, (2) their relative success in reaching stated goals, (3) their high cost of administrative support, and (4) their adherence to contract and Department of Housing and Urban Development (HUD) requirements. (See p. 5.)

FINDINGS AND CONCLUSIONS

HUD administers the Model Cities Program at the Federal level. The San Jose City Demonstration Agency (CDA)--a department of the city's government--develops and administers the program in San Jose. 5

CDA's objective is to carry out a comprehensive demonstration program designed to improve the living environment and general welfare of people living in a designated model neighborhood area. To do this, CDA contracts with various agencies to provide specific services to the model neighborhood.

Improvements needed in monitoring the San Jose Model Cities Program

The city needs to improve its monitoring of the operating agencies' activities to insure that financial and program requirements are being met and to adequately identify and correct problems in a timely manner.

CDA administers the San Jose Model Cities Program through fiscal monitoring and the use of management information systems which accumulate data on the operating agencies' activities. Also, according to city regulations the City Auditor is to conduct postaudits, and the program evaluation component of the city manager's office is to make annual evaluations of the Model Cities projects.

D 2241 GAO's evaluation of the monitoring activities showed weaknesses in (1) fiscal controls over operating agencies, (2) CDA's Management Information Systems, (3) postaudits by the City Auditor, and (4) evaluations of Model Cities projects. (See p. 9.)

Ineffective fiscal controls

CDA is responsible for insuring that Model Cities funds are used by operating agencies in a systematic, legal, and proper manner.

The CDA fiscal representatives are to fulfill this responsibility by making monthly reimbursement audits, in which documentation supporting each operating agency's reimbursement reports is reviewed and approved before the reimbursement of expenses is authorized.

GAO's review of the three operating agencies, showed that expenditures had been made which were ineligible under HUD and city guidelines, none of which were cited as ineligible by the CDA fiscal representatives. For example:

--Model Cities of San Jose, Inc., paid about $680 for telephone calls made by the executive director which were for non-Model Cities business. In addition, contrary to city regulations, the agency reimbursed its employees $1,280 for tuition assistance and paid the executive director for local travel in his personal automobile without requiring odometer readings.

--Santa Clara Plan, Inc., spent Model Cities funds for travel and accounting services related to Department of Labor activities.

--Economic Progress for All, Inc., spent $82 for income tax penalties which are not eligible for reimbursement according to HUD guidelines. (See pp. 9 and 10.)

Management Information Systems

The CDA Management Information Systems section operates as an information center for CDA and Model Cities of San Jose, Inc., staffs by storing and making available data on all San Jose Model Cities projects. During the first and second action years, operating agencies did not always submit the required monthly progress reports to CDA. Of those submitted, some were not prompt and others were not accurate.

GAO reviewed data submitted to the section by the three operating agencies and noted that the reports submitted by one agency--the Santa Clara Plan, Inc.--were inaccurate in that the agency overstated its accomplishments. Although the goal for Santa Clara Plan, Inc., during its first year of operation was to place 65 model neighborhood residents with construction unions, the agency reported that it placed only 38 residents during the year. GAO's review showed that, of the 38 individuals, 4 were never admitted to a union, and of the remaining 34, only 21 were actually model neighborhood residents. Therefore, although the agency reported that it had accomplished 59 percent of its goals, it actually accomplished only 32 percent.

GAO also noted that the progress reports prepared by CDA and Model Cities of San Jose, Inc., staff members were not always submitted to the Management Information System section on time. (See pp. 10 to 12.)

Postaudits

In San Jose the postaudit function of the Model Cities program is performed by the City Auditor. HUD requires that a postaudit be performed on all operating agencies within 90 days after the close of the action year to (1) insure that the accounting system and related internal controls of the operating agencies are operating effectively and (2) that costs charged to the contract are reasonable and applicable to the contract.

As of January 1974, the City Auditor had audited 22 of the 24 second action year operating agencies. GAO's review of the city audit reports on the three operating agencies showed that certain expenditures ineligible under HUD and city guidelines were not found to be ineligible by the City Auditor. For example, in a report on Model Cities of San Jose, Inc., the City Auditor questioned the need for $200 in telephone calls made by the executive director to a private residence in Fresno, California. The report recognized that to be eligible under HUD standards all costs must be reasonable and must clearly relate to the specific purposes and end product of the contract. The executive director, however, told the City Auditor that the calls were made for business purposes, and the City Auditor, because of a lack of evidence to the contrary, accepted the executive director's statement.

GAO's review identified telephone calls costing about $680 which did not clearly relate to the purpose of the contract and were, therefore, ineligible. (See pp. 12 to 13.)

Evaluations of Model Cities projects

The CDA program evaluation component was to evaluate all Model Cities projects annually to

--judge the projects' value or impact on the model neighborhood,

--provide assistance to the CDA and Model Cities of San Jose, Inc., staffs through the evaluation reports, and

--assess whether each project met its objectives.

GAO found that the city manager's office did not evaluate the operations of all the Model Cities projects as required. The office evaluated only 16 of 41 first action year projects and had evaluated, or was evaluating at the time of our review, 12 of 24 second action year projects. Also, the office had used $10,000 of Model Cities funds to contract with a private firm for an evaluation of a non-Model Cities project, even though the office had not met the total requirement for Model Cities evaluation. (See p. 13.)

Operating agencies' activities

The three operating agencies, in certain instances, had not complied with HUD and city requirements regarding eligible expenditures, the hiring of model neighborhood residents, and the use of model neighborhood suppliers. Also, one agency that had established quantified goals and objectives had not achieved them.

GAO believes that improved monitoring by the city would allow for the timely identification and correction of such deficiencies and would identify future problem areas, if any, in the operating agencies' activities.

GAO estimated the cost of administrative support for one operating agency but had no basis for determining whether the cost incurred was reasonable. (See pp. 15 to 31.)

RECOMMENDATIONS

GAO recommends that the Secretary of Housing and Urban Development require the city of San Jose to improve its monitoring of the Model Cities Program and to improve the promptness and accuracy of data supplied to CDA's Management Information Systems section by (1) strengthening fiscal controls over expenditures, (2) requiring prompt reporting of program data and periodically testing the accuracy of such data, and (3) strengthening the postaudit and program evaluation activities.

GAO recommends also that the Secretary require the city to recover from operating agencies those Model Cities funds which were spent for ineligible purposes. (See p. 14.)

AGENCY COMMENTS

As requested by the Congressmen's offices, GAO did not obtain written comments from HUD, the city, or the three operating agencies on the matters discussed in this report. However, GAO discussed these matters with officials of these organizations and incorporated their views in the report.

CHAPTER 1

INTRODUCTION

At the request of Congressmen Burt L. Talcott and Charles S. Gubser, we examined the operations of the San Jose Model Cities Program. After gathering certain preliminary information on the program and several related projects, we met with the Congressmen to discuss their request. At that time the Congressmen stated that they were particularly interested in how well the city was monitoring the activities of operating agencies which administer Model Cities projects. With respect to the operating agencies, their general areas of concern were the (1) propriety of expenditures, (2) relative successes in reaching stated goals, (3) high cost of administrative support, and (4) adherence to contract and Department of Housing and Urban Development (HUD) requirements. To best deal with these areas, the Congressmen asked that we review (1) the monitoring activities of the San Jose City Demonstration Agency (CDA)--the city department which administers the Model Cities Program--and related city departments and agencies and (2) where practicable, to develop the above-identified information on the following operating agencies:

--Model Cities of San Jose, Inc., the citizen participation organization.

--Economic Progress for All, Inc., an economic development corporation.

--Santa Clara Plan, Inc., a manpower organization concerned with placing persons into construction unions.

MODEL CITIES PROGRAM

The objective of the Model Cities Program, established by title I of the Demonstration Cities and Metropolitan Development Act of 1966 (42 U.S.C. 3301), is to show that the living environment and general welfare of people living in slum and blighted neighborhoods can be substantially improved through a comprehensive and coordinated Federal, State, and local effort.

The Secretary of Housing and Urban Development is administratively responsible for the nationwide program. At the local level, CDAs are responsible for developing and carrying out the Model Cities Program. CDAs may be administrative units of city or county governments or separate local public agencies responsible to the sponsoring cities or counties. The agencies, essentially planning and coordinating organizations, usually arrange for the administration of Model Cities projects through existing local agencies or through new agencies created to operate specific program aspects.

HUD grants the cities up to 80 percent of the costs of developing their Model Cities plans. These funds are used to identify the needs of the model neighborhoods, develop new and improved projects and activities, and involve model neighborhood residents in planning comprehensive Model Cities Programs.

After approving the cities' programs, HUD grants funds to pay 80 percent of the CDAs' administrative costs and up to 100 percent of the costs of implementing projects and activities in the HUD-approved Model Cities Programs. The amounts that HUD grants to cities are established by taking into account the number and intensity of economic and social problems in the model neighborhoods. These funds are generally referred to as Model Cities supplemental funds.

A local Model Cities Program consists of a 5-year comprehensive demonstration plan which describes the city's needs in terms of projects required to make a substantial impact on social, economic, and physical problems and annual "action" plans which outline projects to be implemented each year. According to HUD guidelines, to be eligible for Federal financial assistance, a program should (1) be comprehensive, (2) coordinate and concentrate the efforts and resources of Federal, State, and local agencies, (3) include new and imaginative proposals, and (4) have a great impact on living conditions and the quality of the environment in the model neighborhood.

HUD advised each city to limit the size of its model neighborhood to approximately 10 percent of the city's population. HUD stated that the neighborhood selected must be of a size convenient for demonstrating measurable results within a few years.

SAN JOSE MODEL CITIES PROGRAM

In August 1969, HUD awarded a $189,000 grant to the city of San Jose to develop a comprehensive city demonstration program. HUD subsequently awarded San Jose a supplemental grant of $3,086,000, later increased to $3,286,000, for its first action year, which began in April 1971. HUD granted another $3,286,000 to San Jose for its second action year, which began April 1, 1972.

In February 1973, San Jose transmitted its third action year plan to HUD for the period April 1, 1973, to March 31, 1974, requesting a grant of $3,086,000. On March 1, 1973, however, San Jose received a letter from HUD informing the city of the phaseout of the Model Cities Program, as presently funded, after June 30, 1974. The letter stated that, after July 1, 1974, local communities would have to decide about continuing their Model Cities Program under the Urban Community Development Revenue Sharing Program, if that program were enacted by the Congress. The letter also stated that, until June 30, 1974, San Jose's program would be funded at approximately 106 percent of the prior year's program level. Later in March 1973, HUD approved San Jose's third action year plan for a 15-month period to begin April 1, 1973, and continue through June 30, 1974. The grant amount for this period was $4,071,000, subsequently increased to $4,121,500.

Model Cities funding for the first 3 action years and expenditures through June 30, 1973, are summarized as follows.

Model Cities of San Jose
Budget and Expenditure Summary
as of June 30, 1973

Period	Budgeted	Expended
First action year (4-71 to 3-72)	$ 3,286,000	$3,003,645
Second action year (4-72 to 3-73)	3,286,000	2,472,701
Third action year	4,121,500	[a]665,551
Total	$10,693,500	$6,141,897

[a]Expenditures for only 3 months of the 15-month funding period.

The San Jose model neighborhood encompasses an area of about 5 square miles and includes about 46,000 people, or about 9 percent of the city's population. Population estimates show that the neighborhood is composed of about 51 percent Mexican-American, 7 percent Black, and 42 percent Caucasian and other ethnic groups.

San Jose, which has a city council-manager form of government, established its CDA in March 1969 to develop and administer its Model Cities Program. The city council assumed responsibility for insuring the economic and efficient use of Model Cities' funds and must approve any projects proposed for the Model Cities Program. CDA, originally part of the city manager's office, was made a separate city department in May 1973. An organization chart showing the relationship of CDA to the city government is included as an appendix.

In April 1969, the citizen participation component of the San Jose Model Cities Program was incorporated. This organization--Model Cities of San Jose, Inc. (MCSJ)--has the contractual responsibility to the city to provide sound and effective citizen participation for the Model Cities Program.

Representatives from the four neighborhoods which comprise the model neighborhood area--Gardner, Olinder, Mayfair, and Tropicana--are elected by neighborhood citizens to the MCSJ board of directors and various task forces. Each neighborhood elects 39 delegates. Of these, 36 delegates from each neighborhood serve on 6 task forces, and the remaining 3 delegates from each neighborhood form the board of directors. The task forces advise the board on the following six problem areas: (1) health and social services, (2) youth and education, (3) jobs and job training, (4) housing and environment, (5) law and police, and (6) communications and representation. All plans and proposals for using Model Cities funds must be developed or referred through the task forces and the board of directors before the city council approves them and they are implemented.

MCSJ's staff is organized under the board of directors and is managed by an executive director. The staff works closely with CDA staff in overseeing the activities of Model Cities operating agencies.

SCOPE OF REVIEW

Information on the three operating agencies we reviewed was gathered from city contract provisions and HUD requirements, management and financial reports provided to CDA, analyses of agency accounting records and documents, and interviews with cognizant program and administrative personnel. In addition, we reviewed various audit and evaluation reports prepared by city departments and agencies on the operating agencies' activities. We also reviewed the monitoring activities of CDA and other city departments and agencies and discussed these activities with officials of those organizations.

CHAPTER 2

IMPROVEMENTS NEEDED IN MONITORING THE SAN JOSE MODEL CITIES PROGRAM

The City needs to improve its monitoring of the activities of the Model Cities operating agencies to insure that financial and program requirements are being met and to adequately identify and correct problems in a timely manner.

CDA has primary responsibility for the effective administration of the San Jose Model Cities Program. CDA is to fulfill this responsibility through its fiscal monitoring of the program and the use of management information systems which accumulate data on the activities of the Model Cities operating agencies. In addition, according to city regulations the city auditor is to conduct postaudits, and the program evaluation component of the city manager's office is to make annual evaluations of the Model Cities projects.

Our evaluation of the monitoring activities showed that

--CDA's fiscal controls over operating agencies' financial operations were ineffective in identifying ineligible expenditures made by the agencies,

--data provided to CDA's management information systems by operating agencies was not always accurate or prompt,

--the city auditor's postaudits did not disclose certain ineligible expenditures made by operating agencies, and

--evaluations of Model Cities projects were not carried out as required and $10,000 in Model Cities funds were expended for evaluating a non-Model Cities project.

INELIGIBLE EXPENDITURES NOT IDENTIFIED

Although it is a contractual requirement that each operating agency manage its own Model Cities funds, it is CDA's responsibility to observe each agency's financial operations to insure that the funds are used in a systematic, legal, and proper manner.

CDA's fiscal representatives are to fulfill this responsibility by making monthly reimbursement audits, in which documentation supporting each operating agency's reimbursement reports is reviewed and approved before reimbursement of expenses is authorized, and by visiting sites each month. The CDA accountant, who was one of the fiscal representatives, told us most large independent agencies were visited monthly but those operating agencies which were part of the city or county government or which were small were visited less frequently. The CDA accountant also informed us that the monthly reimbursement audits made up about 80 percent of the fiscal monitoring work.

The three operating agencies had made expenditures which we determined to be ineligible under HUD and city guidelines, but none of these expenditures were cited as ineligible by the CDA fiscal representatives. For example:

--MCSJ paid about $680 for telephone calls made by the executive director which were for non-Model Cities business. In addition, contrary to city regulations, MCSJ reimbursed its employees $1,280 for tuition assistance and paid the executive director for local travel in his personal automobile without requiring odometer readings.

--Santa Clara Plan, Inc., spent Model Cities funds for travel and accounting services related to Department of Labor activities.

--Economic Progress for All, Inc., spent $82 for income tax penalties, which are not eligible for reimbursement according to HUD guidelines.

These matters are discussed in greater detail in chapter 3.

ACCURATE AND PROMPT DATA NOT PROVIDED TO MANAGEMENT INFORMATION SYSTEMS

CDA's Management Information Systems (MIS) section operates as an information center for CDA and MCSJ staffs by storing and making available data on all San Jose Model Cities projects. This section is responsible for analyzing, storing, and reporting on operational data submitted by the operating agencies and gathered by various CDA and MCSJ staffs who visit the operating agencies periodically. The CDA staff includes fiscal representatives, as well as project specialists who are responsible for monitoring operating agencies to assess their effectiveness in meeting project goals and their compliance with CDA contracts. Site visits are made by MCSJ program technicians who are responsible for reporting to the appropriate MCSJ task force on the effectiveness of each project in solving model neighborhood problems.

During the first and second action years, operating agencies did not always submit the required monthly progress reports to CDA. Of those submitted, some were not prompt and others were not accurate. In January 1973, the MIS section began keeping records of the due dates of agency reports, and in July 1973, CDA issued directives to operating agencies stating that funds would be withheld unless reports were completed promptly and accurately. The MIS specialist told us in January 1974 that the reports were now more prompt and accurate.

We reviewed data submitted to the MIS section by the three operating agencies and noted that the reports submitted by one agency--Santa Clara Plan, Inc.--were inaccurate in that the agency overstated its accomplishments. Although the goal for Santa Clara Plan, Inc., during its first year of operation was to place 65 model neighborhood residents with construction unions, the agency reported that it placed only 38 residents during the year. Of the 38 residents, 4 were never admitted to a union; of the remaining 34, only 21 were actually model neighborhood residents. Therefore, although the agency reported that it had accomplished 59 percent of its goal, it actually had accomplished only 32 percent.

The MIS specialist is responsible for analyzing agency progress reports by comparing reported accomplishments with the projects' contractual goals. He informed us, however, that, although some agency contracts included monthly goals which could be compared with monthly accomplishments, he did not make such comparisons unless sufficient historical evidence was available from which he could project the results. He did not analyze the accomplishments of Santa Clara Plan, Inc., until after the agency's contract expired.

Also, as is shown below, the progress reports prepared by MCSJ staff members were not always submitted to the MIS section on time.

	Progress reports submitted by MCSJ staff		
Month	Total due	Total submitted by deadline	Percent not submitted by deadline
March 1973	46	18	61
April	46	37	20
May	45	43	4
June	41	-	100
July	41	32	22

In addition, we reviewed MIS records on the site visits to operating agencies by CDA personnel for the period March to July 1973. Although site visit reports were due by the fifth day of the month following the visit, reports not submitted on time during the 5-month period ranged from 15 to 60 percent.

POSTAUDITS NOT EFFECTIVE IN IDENTIFYING OR OBTAINING CORRECTIVE ACTION ON INELIGIBLE EXPENDITURES

HUD requires that a postaudit be performed on all operating agencies within 90 days after the close of the action year. In San Jose, the city auditor makes these postaudits. Although funds to cover the cost of the auditors' postaudit are provided for in the CDA budget, the auditors report directly to the city auditor who is, in turn, responsible to the city council. HUD requires that the audit scope be sufficient to enable the city auditor to express an audit opinion and that the audit objectives are to:

--Insure that the operating agencies' accounting systems and related internal controls are operating effectively and that adequate records and safeguards are being maintained over grant funds.

--Determine that costs charged to the contract are reasonable, applicable to the contract, not prohibited by the contract, and determined in accordance with accounting procedures prescribed by HUD for the city and in accordance with generally accepted accounting principles.

As of January 1974, the city auditor had audited 22 of the 24 second action year operating agencies. We examined the city audit reports on the three operating agencies we reviewed and noted that certain expenditures which we found to be ineligible under HUD and city guidelines were not found to be ineligible by the city auditor. For example, in a report on MCSJ, the city auditor questioned the need for $200 in telephone calls made by the executive director to a private residence in Fresno, California. The report recognized that to be eligible under HUD standards all costs must be reasonable and must clearly relate to the specific purposes and end product of the contract. The executive director, however, told the city auditor that the calls were for business purposes, and the city auditor, because of a lack of evidence to the contrary, accepted the executive director's statement.

On the basis of our analysis of the telephone calls and discussions with the executive director, it appeared to us that calls costing about $680 did not clearly relate to the purposes of the contract and were, therefore, ineligible. (See p. 17.) Additional comments on ineligible expenditures not delcared ineligible by the city auditor are on pages 18 and 31.

IMPROVEMENTS NEEDED IN PROGRAM EVALUATION OF MODEL CITIES PROJECTS

The CDA program evaluation component was to evaluate all Model Cities projects annually to

--judge the projects' value or impact on the model neighborhood,

--provide assistance to CDA and MCSJ staffs through the evaluation reports, and

--assess whether each project met its objectives.

In May 1973, this function was transferred from CDA to the city manager's office. The city manager told us that he desired independent, objective information concerning the Model Cities Program and that was the reason for placing the evaluation function under the deputy city manager for evaluation.

However, the city manager's office did not evaluate the operations of all the Model Cities projects as required. The office evaluated only 16 of 41 first action year projects and had evaluated, or was evaluating at the time of our review, 12 of 24 second action year projects. Also, the office had used $10,000 of Model Cities funds to contract with a private firm for an evaluation of a non-Model Cities project, even though the office had not met the total requirement for Model Cities evaluation. When we presented this to the cognizant Deputy city manager, he stated that immediate action would be taken to cancel this contract (of which $6,800 had been spent) since the funds were needed for Model Cities program evaluation. However, by the time action was taken to cancel the contract the evaluation had been completed.

CONCLUSIONS

The city of San Jose needs to improve its monitoring of the Model Cities operating agencies to insure that financial and program requirements are being met and to adequately identify and correct problems in a timely manner.

We believe also that the city of San Jose should take action to recover from operating agencies Model Cities funds spent for ineligible purposes.

RECOMMENDATIONS

We recommend that the Secretary of Housing and Urban Development require the city of San Jose to improve its monitoring of the Model Cities Program and to improve the promptness and accuracy of data supplied to CDA's Management Information Systems section by (1) strengthening fiscal controls over expenditures, (2) requiring prompt reporting of program data and periodically testing the accuracy of such data, and (3) strengthening the postaudit and program evaluation activities.

We recommend also that the Secretary require the city to recover from operating agencies those Model Cities funds expended for ineligible purposes.

CHAPTER 3

ACTIVITIES OF SELECTED MODEL CITIES OPERATING AGENCIES

The three operating agencies in certain instances had not complied with HUD and city requirements regarding eligible expenditures, the hiring of model neighborhood residents, and the use of model neighborhood suppliers. Also, one agency that had established quantified goals and objectives had not achieved them.

In our opinion, improved monitoring by the City would allow for the timely identification and correction of such deficiencies and would identify future problems in operating agencies' activities.

We estimated the cost of administrative support for one operating agency but had no basis for determining whether the cost incurred was reasonable.

MODEL CITIES OF SAN JOSE, INC.

MCSJ, a nonprofit corporation, was established to provide the citizen participation element from the San Jose model neighborhood area in accordance with HUD guidelines. MCSJ is headed by an executive director employed by MCSJ's board of directors. The administrative staff comprises 3 program technicians, 2 community organizers, 1 contract compliance officer, and 11 finance and clerical support personnel.

Program technicians work directly with various task forces, providing technical assistance and information on the effectiveness of Model Cities projects in solving neighborhood problems. The community organizers, through extensive community contact, develop and stimulate community participation and leadership and promote and assist Model Cities projects. The contract compliance officer is responsible for insuring that Model Cities operating agencies comply with the equal employment opportunity and model neighborhood resident employment requirements of their contracts with CDA. The contract compliance officer also disseminates job announcements for all Model Cities-funded operating agencies and acts as the purchasing agent for MCSJ.

Program operations

The contract with CDA requires MCSJ to

--cooperate and work with the city in planning and implementing the Model Cities Program;

--promote, foster, and secure citizen participation in analyzing model neighborhood problems and in developing, monitoring, and evaluating Model Cities projects;

--evaluate proposals for improving the model neighborhood and submit them through the appropriate task force for consideration;

--submit task force recommendations on various proposals to the city council and reconsider recommendations based on the council's questions and objectives; and

--perform any additional services and duties necessary to meet HUD requirements.

Model Cities funding provided to MCSJ by CDA for the three action years was: $460,297 for the first, $354,000 for the second, and $373,000 for the 15-month, third action year.

Program administration

HUD guidelines set standards for the eligibility of costs incurred under Model Cities grant agreements, and the city, through CDA, requires compliance with these standards in its contracts with Model Cities operating agencies. HUD guidelines state that all costs incurred must be reasonable and must clearly relate to the specific purposes and end product of the contract. In addition, costs incurred must be no more than those allowed under the city's policies, procedures, and practices.

We found that some of MCSJ's administrative activities were not directly related, or were contrary, to the specific purposes of its contract and that some expenditures were more than allowed under city policy, which MCSJ was contractually obligated to follow. Specifically:

--The executive director made telephone calls costing about $680 to the private and work phones of an individual in Fresno.

--Some local travel, hotel accommodations, and tuition assistance payments were contrary to city policy.

--The requirements for hiring model neighborhood residents and using model neighborhood suppliers were not adhered to.

Telephone expenditures

We analyzed the MCSJ telephone account and found that, for the period May 1971 to June 1973, more than $680 was spent on telephone calls to three locations in Fresno. Most of the calls were to a personal residence and the others were to places of employment of the same individual. We identified 262 such telephone calls, averaging $27.24 a month, that had been made over the 25-month period. Monthly charges ranged from 60 cents to $62. Twenty-three calls were made on Saturdays, 12 on Sundays, and 3 on national holidays. Numerous calls were made in the evenings after 5 p.m.

The MCSJ executive director said he had placed most of the calls to a woman employed by an operating agency of the Fresno Model Cities Program. He told us that the purpose of the calls was to provide advice to the Fresno Mexican-American community which was interested in organizing a citizens participation program similar to MCSJ. He said the calls were made late in the evening because that was the only time he could reach her.

We asked the director of the Fresno Model Cities operating agency if the woman was an official of the agency and could speak to the MCSJ executive director in an official capacity. The director replied "No" to both questions.

The MCSJ executive director told us that none of the telephone calls were specifically related to the activities of the Fresno operating agency. He further stated that the MCSJ board of directors had been informed of his involvement with the efforts of the Fresno Mexican-American community and that the only expenses incurred were for telephone calls. He added that all other costs were borne by him personally.

We noted that the city auditor, in a report dated August 31, 1973, had questioned $200 in telephone expenses incurred by the executive director for calls to the same private residence in Fresno. The executive director, however, told the city auditor the calls were for business purposes, and the city auditor, because of a lack of evidence to the contrary, accepted the executive director's statement. On the basis of our analysis of the telephone calls and discussions with the executive director, it appears to us that, contrary to HUD guidelines, the calls did not clearly relate to the purposes of the MCSJ contract and were, therefore, ineligible expenditures.

Also on MCSJ's telephone account were charges for telephone calls to Mexico City, Mexico; calls to personal residences of persons with the same surname as a staff member; and calls to and from Alice and El Paso, Texas. We discussed this apparent misuse of telephones with the MCSJ finance officer, who said he thought one of the staff members had been spoken to regarding personal use of the telephone. He added that he had no idea who was making calls to Texas and that control over the use of telephones was difficult because MCSJ had so many extensions.

<u>Travel and tuition assistance expenditures</u>

City travel policy, which MCSJ is contractually required to follow, provides that mileage be paid for the use of a private vehicle only on the basis of actual odometer readings. In addition, the policy requires that reimbursement claims disclose the dates, destinations, and purposes of the travel. We found, however, that mileage for local travel had been paid to the executive director on the basis of estimates of miles driven, not on the basis of odometer readings. In addition, dates, destinations, and purposes of trips were not specifically identified on his claims. The number of miles claimed averaged 413 a month during the second action year.

The executive director informed the city auditors, when they questioned his claims, that he estimated his daily mileage at 20 miles and prepared his claim accordingly. We found, however, that the average daily mileage he claimed ranged from 18 to 51 miles.

Also, on at least two occasions, the executive director rented double rooms and was reimbursed for their cost. City policy states that "lodging is limited to the cost of single room accommodations."

The city auditor's report stated that the amounts claimed by the executive director did not appear excessive; the report made no mention of the fact that city travel policies had not been complied with. Local travel claims of other MCSJ staff members which we reviewed were well documented.

MCSJ was providing tuition assistance and reimbursement of related cost to employees well in excess of city limitations. The city requires that course work relate to the employee's present position and that 75 percent of tuition and other expenses, excluding textbooks, be reimbursed upon satisfactory completion of the course. Five employees received tuition assistance and related reimbursement totaling $1,280 during the second action year. The employees were paid for books, fees, and mileage to and from college and also received regular wages during class time. None of the employees took courses specifically related to their positions and, under city criteria, none of the $1,280 spent during the second action year should have been allowed.

Hiring residents of, and using suppliers in, the model neighborhood

The MCSJ contract states that its employees are to be residents of the model neighborhood unless it is unable to find qualified candidates. In that event, MCSJ is required to notify the city before hiring a non-model neighborhood resident. We found that, as of July 1973, three present and nine past employees of MCSJ were non-model neighborhood residents. The positions held by the past employees were community representative, community organizer, stenographer, receptionist, secretary, and bookkeeper. The present positions held by non-model neighborhood residents are executive director, finance officer, and community organizer. Our review of CDA files disclosed no evidence to show that CDA was notified of the employment of the 12 non-model neighborhood residents.

The MCSJ finance officer told us that, when a position was open in MCSJ, notices were issued to all elected members of MCSJ, announcements were made to other agencies, and advertisements were placed in local newspapers. Applicants were screened for qualifications and model neighborhood residency. Qualified residents were given personal interviews by a selection committee composed of four MCSJ board members. The names of the top three candidates were then submitted to the executive director of MCSJ who hired one of them. We requested the records showing the names of the candidates submitted to the executive director and his reasons for having chosen the selected candidate. MCSJ officials told us they did not keep such records.

We reviewed the employment applications and listed qualifications for the position of community organizer, which MCSJ had filled with a non-model neighborhood resident. Of the 56 persons who had applied for the position, 28 were model neighborhood residents. On the basis of experience and education, it appears that at least 7 of the 28 were more qualified than the individual who was hired.

The MCSJ contract provides also that suppliers from the model neighborhood receive preference and stipulates that, should the agency be unable to implement this policy, it must report that fact to CDA 10 calendar days before entering into a contract or placing a supply order with a non-model neighborhood supplier.

We identified 30 MCSJ suppliers who were not located in the model neighborhood.

The MCSJ purchasing agent told us that contracts with non-model neighborhood suppliers were not reported to CDA. The executive director of MCSJ informed us that he was not aware of this reporting requirement and that (1) suppliers of some items needed by MCSJ were not located in the model neighborhood, (2) MCSJ buys where it can get the best price, and (3) MCSJ only buys about $4,000 worth of supplies each year.

ECONOMIC PROGRESS FOR ALL, INC.

Economic Progress for All, Inc., is an independent, nonprofit corporation created to implement the economic development goals of the Model Cities Program by stimulating employment and enhancing the general economy in the Model Cities area. The corporation's functional responsibility is divided into two main categories: (1) small business financial and technical assistance and (2) large-scale commercial and industrial development. As an operating agency funded entirely through the Model Cities Program, the corporation spent about $396,000 in its first and second action years and is budgeted to receive $422,000 in the third action year.

The corporation's contract with CDA specifies only the scope of services and does not identify specific, objective criteria against which management performance may be measured. Although economic development is the goal, there are no standards for determining how effectively the goal is achieved or the efficiency with which management performs its responsibilities.

Small business technical and financial assistance

The corporation provides technical and financial assistance to new or existing small businesses that meet at least one of the following eligibility criteria.

--Located in a model neighborhood.

--Owned by a model neighborhood resident.

--Employing a substantial number of model neighborhood residents.

The intent is to assist those businesses which exhibit potential and appear reasonably feasible but which are unable to obtain the necessary help through established financial institutions.

Technical assistance may consist of loan packaging, legal counseling, accounting assistance, or other forms of business management assistance. Financial assistance is available to new or existing businesses unable to obtain conventional financing. (The owner must have some of his own capital invested to qualify.) This assistance may consist of a direct loan to the business, participation in a bank loan, or guarantee of a bank loan. In bank participating loans, the corporation provides the recipient a portion of the loan and makes the corporation's interest subordinate to the bank's to encourage the bank to participate in the loan. When the corporation guarantees a bank loan, it sets aside, in escrow, funds adequate to guarantee the loan.

Corporation officials said they prefer to make participating-type loans because (1) their funds provide leverage to bring loans from the private sector into the Model Cities area and (2) the loans act as the vehicle to introduce the corporation's clients to the established financial community. These officials expressed the belief that direct loans might be a disservice because the client does not learn to negotiate for conventional financing.

The executive director of the corporation told us that the main objective of the small business loans was to create a "merchant class" within the Model Cities area. The corporation has pursued this objective despite the conclusion of a December 1971 program evaluation report by the Social Planning Council--a private consulting organization contracted by CDA. The report concluded that the corporation's loan program, as then constituted, stood little chance of success if success were defined as contributing to either increased employment or generation of community equity and economic power. The reason stated was that the size and type of ventures (very small retail businesses) which the corporation was capable of financing, given its limited lending capacity, were becoming increasingly less able to survive in an economy moving toward domination by large chain stores, franchises, and conglomerates.

We reviewed the corporation's small business technical and financial assistance activities during its first 2 years of operation. During that period, the corporation made 31 loans totaling $121,416 to 19 clients. At July 31, 1973, six loans totaling $14,600 were delinquent and three loans totaling $10,481 were in default.

Our review showed that

--uniform procedures for evaluating loan applications had not been established and

--funds advanced by CDA to the corporation for loan purposes were retained in an escrow account in large amounts for extensive periods of time, contrary to its agreement with CDA.

Loan beneficiaries

During the first and second action years, CDA made available $145,000 in Model Cities funds to the corporation for its small business loan program, and the corporation made 31 loans totaling $121,416 to 19 clients. Eight of the 19 clients received 2 loans each, and 2 clients received 3 loans each. The amounts of the 31 loans varied from $300 to $10,000, and averaged $3,920.

The corporation's small business loan program is summarized in the following table.

Type	Number of clients	Number of loans	Funds provided by the corporation	Funds provided by banks
Direct loans	11	22	$ 83,815	$ -
Participating loans	4	5	19,000	56,025
Guaranteed loans	4	4	18,601	18,601
Total	19	31	$121,416	$74,626

In addition, the corporation helped six businesses obtain six direct bank loans totaling $70,750.

Employment impact

We tried to assess the benefits of the small business loan program in terms of its impact on employment. Although accurate information was not available, we estimated that approximately 79 jobs were directly affected in the following manner.

Existing jobs retained	26
Temporary jobs filled	29
New jobs created	24
Total	79

Those jobs in existence at the time loans were granted may have been retained regardless of the corporation's involvement. The temporary jobs category includes at least 7 jobs no longer in existence because of business failures and 22 other jobs dependent upon the period of contract work of three contractors.

Proprietorship positions in new businesses which were created through corporation loans are included in the 24 positions in the new jobs category. We could not determine the permanency of the new jobs created.

Lack of loan approval procedures

We noted that the corporation had not established uniform procedures for evaluating loan applications or for documenting its files to support its decision to approve or disapprove such applications. We reviewed the corporations files for 19 of its loan applicants; 12 became corporation loan clients, 1 later obtained a bank loan, and 6 were rejected. We wanted to determine the adequacy and completeness of file information, particularly concerning the applicants' qualifications and the reasons for approving or rejecting applications.

The corporation had not conducted financial analyses or economic feasibility studies of proposed projects to determine their potential for success. In addition, the corporation did not require information on, or investigate, the management experience of potential loan recipients as a means of assessing their ability to effectively manage proposed projects. In many instances the information in files was poorly organized and incomplete with regard to financial analysis, economic feasibility, and applicants' qualifications; also, clear statements of justification for loan approval or disapproval were lacking.

The corporation's lack of uniform loan evaluation procedures, coupled with the above observations, suggest that more objective and detailed analysis is needed before a loan is approved. As of July 31, 1973, 4 of the corporation's 19 loan recipients had gone out of business. The loans to three of the four were in default and one was delinquent. In addition, five other loans were delinquent at that date.

Escrow transactions

Prior to February 1972, the corporation did not receive loan funds from CDA before the loan was disbursed. The corporation would notify CDA that a particular applicant had been approved to receive a loan in a certain amount on a specified date. When that date arrived, CDA was to issue a check for the specified amount payable to the loan recipient. The corporation, however, complained that CDA was not consistently issuing the checks on the specified date and that therefore the loan transactions could not be promptly completed. Accordingly, the corporation and CDA entered into an agreement whereby the corporation would notify CDA when it anticipated that an applicant would be approved for a loan. Upon such notification, CDA would advance funds in the amount of the anticipated loan for deposit in a corporation escrow account pending the close of the loan transaction.

Our review of the escrow account showed that, although funds were advanced by CDA for deposit in the account on the basis that the funds would be disbursed for a specified purpose in the near future, funds were retained in the account for extensive periods of time, contrary to the agreement with CDA.

Between February 1972 and September 1973, the corporation placed a total of $62,900 in escrow for 13 anticipated small business loans. The average monthly balance in escrow was $10,295 for the 20-month period, and the average time funds were held in escrow for each of the 13 anticipated loan transactions was 4.3 months. Of the $62,900 for the 13 anticipated loans (1) $12,600 was disbursed for four loans, (2) $2,000 remained in escrow at September 30, 1973, for one anticipated loan, and (3) $48,300, earmarked for eight loans which were never made, was transferred to the corporation's bank account for use as working capital or for making other loans. CDA adjusted the amount of the corporation's monthly reimbursements to compensate for escrow funds returned to the corporation's bank account.

Collection efforts

The status of corporation loans at July 31, 1973, was as follows.

Status of loan	Principal amount	Principal repaid	Principal balance	Amount in arrears	Months in arrears	Number of loans
Current	$25,475	$ 4,792	$20,683	-	-	5
Delinquent	14,600	4,768	9,832	$ 1,832	22	6
Defaulted	10,481	-	10,481	-	-	3

Corporation files contained letters to delinquent borrowers requesting payment. In addition, the corporation asked some delinquent borrowers to come to its offices to be counseled on renegotiating the loan instrument when payments were in arrears. Before July 31, 1973, four delinquent loans had been renegotiated by the corporation. The corporation's loan officer informed us that the reasons for renegotiating the notes were:

1. To give a psychological boost to the clients in that they were relieved of the pressure to catch up on delinquent amounts.

2. To prevent having to declare a client in default while he was trying to establish viable business operations.

It appears to us, however, that the benefit of renegotiating loans may be short-lived because three of the four clients whose notes were renegotiated were again delinquent on their loans as of July 31, 1973.

The corporation initiated legal action to collect the $10,481 outstanding on the three defaulted loans. At the time of our review, however, none of the $10,481 had been recovered, and the city auditors, in an audit report dated August 29, 1973, stated that eventual collection was considered highly improbable.

Large-scale commercial and industrial development

The scope of services in the corporation's contract with the city requires it to develop large-scale commercial and industrial projects with the expectation of providing employment and economic opportunity to model neighborhood residents. For this purpose, the corporation was given venture capital funds for use in acquiring real property and was to provide technical assistance in the commercial development of industrial sites. The corporation attempted to meet this objective by developing a plan for Olinder Industrial Park (OIP)--a 150-acre tract located centrally among the four Model Cities neighborhoods. The development of OIP was intended to bring the Model Cities area into the economic mainstream of San Jose and to provide 4,500 job opportunities for model neighborhood residents. In October 1971, the corporation assigned one staff member full time to pursue the goal of developing OIP and budgeted $150,000 for the large-scale development.

In a December 1971 report, a consultant hired by the corporation stated that the industrial park proposal appeared unrealistic in view of the corporation's financial resources and the questionable likelihood of a large firm being willing to relocate in the park if it had to provide employment guarantees. The consultant suggested that, instead, the corporation develop or support several small assembly or manufacturing operations in the Model Cities area that would provide employment to model neighborhood residents. When we asked why the corporation had not adopted this alternative, the executive director stated that most medium-sized businesses are owned and managed by "anglos" and that to assist them in return for employing model neighborhood residents would be interpreted as patronization by the minority community.

In March 1972, with the concurrence of the city council and other city agencies, the corporation deposited $17,000 in escrow to secure an option to purchase a 5-acre parcel of land on the site. The purpose of the option was to obtain a hold on the site until a grant could be obtained through HUD's Neighborhood Development Program (NDP) for continuing the project.

In June 1972, the San Jose Redevelopment Agency, with whom the corporation had been coordinating its efforts, submitted a proposal to the city council for obtaining an NDP grant from HUD. The proposal concluded that

--the industrial park project was suitable and feasible to develop,

--developers and land owners were interested and willing to participate, and

--the site was designated in the San Jose General Plan for industrial use and had been approved by the San Jose Industrial Development Commission.

The city council, however, declined to approve the NDP proposal which, if accepted by HUD, would have provided $800,000 for developing OIP. A land utilization and marketability study, made by a prominent real estate firm, was included with the NDP proposal and noted that:

> "The demand for users suitable to locate in the proposed park is limited at this time."

and that:

> "The main obstacle to be overcome in marketing the site as an industrial park is motivating industry and businesses to relocate in an industrial park surrounded by an area of high unemployment and designated as an area for redevelopment."

The study also concluded that, in order to market the site, all offsite improvements should be completed. The preliminary engineering construction cost of offsite improvements for the first 50 acres in the proposed park was estimated at $391,000.

Subsequently, the corporation attempted to interest private developers and businesses in the project and to improve its bargaining position by acquiring property at the site. The corporation wanted to gain control of at least 40 acres in order to obtain commitments to relocate to the site from industries which employed a minimum of 30 persons per acre and which would offer hiring preference to model neighborhood residents. In December 1972, the corporation received approval from the city council to purchase the 5 acres which had been optioned in March. The final selling price of the land was $149,000. In December 1972 the corporation paid the owner of the property $42,000 (including the $17,000 previously placed in escrow) and issued an 8-percent note for the remaining balance of $107,000.

On July 30, 1973, the corporation received approval from the city council to obtain a 120-day purchase option on the 40 acres of additional land for $1. During this time the corporation hoped to line up tenants and private developers. The option purchase price was approximately $1 million. As of September 1973, there were no firm commitments from prospective tenants to relocate within the proposed industrial park.

A corporation official told us that recent efforts by city officials to attract new businesses into San Jose had been directed toward developing a competing industrial park--the Berryessa Industrial Reserve--rather than OIP.

Fiscal reporting

The corporation is a unique CDA operating agency in that it generates operating income, such as bookkeeping fees, interest on bank guarantee accounts, and interest and penalty fees on loans. However, the corporation's fiscal reports provided to CDA did not contain sufficient data to permit a detailed analysis of the sources of funds or the ways in which funds were applied to operations. This difficulty was caused, in our opinion, by two interrelated factors: (1) significant transactions were reported as net expenditures and (2) a single checking account was used for both working expense and venture capital transactions.

Working expenditures recorded in the corporation's accounting records varied monthly from $11,782 under to $5,504 over that reported to CDA for reimbursement during the second action year.

After we selected the month with the greatest variance, the corporation's accountant reconstructed the adjustments, which reconciled the variance. The adjustments indicated that (1) the corporation had used $1,006 of interest income for working expenditures and (2) bookkeeping fees had been used to pay an $82 penalty for late payment of payroll taxes. Both uses are prohibited by HUD and CDA.

Furthermore, reports which the corporation provided to CDA did not indicate the gross volume of loan disbursements and repayments--only a net venture capital balance was shown. The reports also did not indicate the amount of loan funds in escrow or the amount of loans made from the escrow account. CDA needs such data to exercise proper control over the corporation. Improved visibility for the sources and application of funds would enable CDA to better identify improper use of funds. Improvements in CDA's fiscal monitoring capability might also deter improper uses of such funds.

Administrative costs

We estimated the corporation's administrative costs for small business loans--its principal activity in terms of accomplishments. We selected the second action year as a base period because it most fairly represented normal operating conditions. During that year, the corporation's staff interviewed 257 loan applicants and processed 47 loan applications, 25 of which were approved.

Assuming that operating costs, including personel expenses, are allocable in proportion to the amount of staff time spent on various functions, we estimated that approximately $84,440 of the corporation's total operating costs of $150,690 were directly associated with the administration of the small business loan project. However, we have no basis for determining the reasonableness of the administrative costs of this project.

SANTA CLARA PLAN, INC.

Santa Clara Plan, Inc., is an operating agency created to implement an agreement between 12 construction unions, contractors, and minority representatives in Santa Clara and San Benito Counties. The purpose of the agreement, created under the Home-Town Plan of the Department of Labor's Office of Federal Contract Compliance, was to increase minority representation in skilled-construction trades. During the agency's first year of operation, it received Model Cities funds from CDA and funds from the Department of Labor.

Funding and contract requirements

Department of Labor

The Department of Labor granted $35,000 to the agency for a 1-year period beginning in April 1972. The contract required the agency to (1) promote interest among minorities in construction unions, (2) help evaluate applicants for union membership, and (3) make a series of monthly reports to the Office of Federal Contract Compliance. The monthly reports were to include (1) data on all individuals requesting services from the agency, (2) cumulative accounting of, and current data on, all minority individuals placed in union employment, (3) listings of all new construction jobs in the area costing $300,000 or more, and the prime contractors and subcontractors for each, and (4) the ethnic breakdown of union membership of the participating unions. The agency's goal for the year was to place 38 individuals in unions for the Department of Labor.

Model Cities

Model Cities funding of the agency began with a contract in May 1972. This contract stipulated that the agency (1) recruit and train model neighborhood residents in the construction trades, (2) seek union employment for over-age persons with skills, and (3) provide high school equivalency training and other education to allow entrance into the construction field. The Model Cities cost-reimbursable grant of $70,000 represented approximately two-thirds of the agency's budgeted funding for the first year. During the year, CDA reimbursed the agency $59,133. The first year goal was for the agency to place at least 65 model neighborhood residents into unions. This number represents about two-thirds of the agency's total first year union placement goal of 103 individuals.

The agency's contract with CDA for its second year of operation (a 15-month period) provided that it would receive $131,000 in Model Cities funds and established a union placement goal of 120 individuals. These Model Cities funds were the agency's only source of funding during its second year. Training was not included in the agency's scope of services for its second year of operations.

Program operations and administration

We reviewed the agency's operations to determine whether it was meeting its program goals and how it was conducting its financial management activities.

The agency

--had not met the contractual goals established for its first year of operation and may fall short of the goals established for the second year and

--had allocated certain costs to its Model Cities operations which were for non-Model Cities activities.

<u>Program goals</u>

As we said before, the agency's first year goal was to place 65 model neighborhood residents into unions. The agency reported to CDA that it had placed 38 model neighborhood residents at the end of its first year of operation. We found that only 25 of the 38 persons listed actually had addresses within the model neighborhood at the time of placement. In a discussion with a city auditor, we found that 4 of these 25 reported placements never became union members. Therefore, only 21 model neighborhood residents, about 32 percent of the stated goal, were actually placed in unions during the agency's first year of operation.

We discussed the agency's failure to meet its goals with agency officials who informed us that

--the first 3 months of any program cannot be expected to be productive,

--a 3-month concrete strike stopped construction during the summer of 1972, and

--heavy rains shortened the construction season.

During the agency's first year of operation, it placed 65 persons, including the 21 model neighborhood residents. Therefore, the agency met about 116 percent of its Department of Labor goal, 32 percent of its Model Cities goal, or 63 percent of its overall goal. The contract compliance officer of MCSJ informed us that, on the basis of the agency's recruitment effort, most of the qualified model neighborhood residents who desired employment in construction had been recruited.

During the first quarter (April to June 1973) of the agency's second year of operation, 10 model neighborhood residents were placed in unions. Eight of these placements were made in June. Agency officials told us that June should have been a peak month due to favorable weather, no construction strikes, and numerous construction projects. On the basis of this performance, the agency may fall short of the 120 model neighborhood resident placement goal for its second year.

Program administration

We found that some agency operations which were charged to the Model Cities contract were for non-Model Cities activities. Some of these activities were related to the agency's first year of operation when it was receiving both Department of Labor and Model Cities funding. The agency allocated costs for common expenses on the basis of funding received (one-third from Labor, two-thirds from Model Cities), rather than on the basis of which activity benefited from the expense. If allocations had been made on the basis of placements, the cost allocation ratio would have been reversed.

In addition, some local travel expenses incurred by the agency's recruiter-counselors were incorrectly charged to Model Cities in the first year of operation. Two recruiters told us that most of their driving, especially in the early part of each month, was for the purpose of gathering data for Department of Labor reports. They further stated that, although some Model Cities placement activity might result, placement was not the primary objective of the travel. Besides paying for some Department of Labor-related travel, Model Cities paid for the total services of an accountant who maintained both Model Cities and Department of Labor accounting records.

CONCLUSIONS

The three Model Cities operating agencies, in certain instances, had not complied with HUD and city requirements regarding eligible expenditures, the hiring of model neighborhood residents, and the use of model neighborhood suppliers. Also, one agency that had established quantified goals and objectives had not achieved them. In our opinion, effective implementation of our recommendation regarding the CDA (see p. 14) would enable it to identify and correct the type of deficiencies noted in this report and to identify future problem areas, if any, in the activities of the Model Cities operating agencies.

CITY OF SAN JOSE, CALIFORNIA