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

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RELEASED

B-171500

JUN 27 1974

CHK The Honorable Adlai E. Stevenson, III
United States Senate

Dear Senator Stevenson:

Your letter of January 31, 1973, requested us to audit the financial ^{P. 221}
records of the Ascending Citizen's Development Company (ACDC)--the economic
development contractor of the Model Cities Program in East St. Louis,
Illinois--and its related corporations and the Model Cities Program in
East St. Louis to determine whether the program's resources had been
mismanaged, mishandled, or misappropriated.

We reviewed the activities of ACDC and its related corporations and
reported on this phase of our work on January 7, 1974 (B-171500).

This report is on our review of eight Model Cities projects--concerning
citizen participation, manpower and job development, and environmental pro-
tection and development--in East St. Louis which we examined at your request.

2 The Department of Housing and Urban Development (HUD) administers ²³
the Model Cities Program at the national level and the City Demonstration ^{P. 29 82}
3 Agency (CDA) of East St. Louis is responsible for the local administration
of the program. HUD requires CDA to monitor and control the activities of
operating agencies conducting Model Cities projects to insure that adequate
financial systems are maintained and that program funds are effectively and
efficiently used as intended.

About \$103,000 of questionable expenses in the eight Model Cities
projects were charged to the Model Cities program; documentation was
inadequate to support costs reported by certain operating agencies to CDA;
and CDA and operating agencies' records were inadequate to determine
overall program accomplishments.

The weaknesses resulted primarily from CDA's failure to adequately
monitor and control Model Cities project activities. Officials in HUD's
Chicago area office on September 19, 1973, concurred with our findings and
said they would follow up to insure that corrective action was taken. On
June 28, 1974, officials of the Chicago area office said no followup action
had been taken.

Detailed information on the activities of the operating agencies we
reviewed follows.

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BACKGROUND

The Model Cities Program in East St. Louis began on April 22, 1968, when HUD awarded the city a planning grant. On July 29, 1971, the city was selected for participation in the Planned Variations phase of the Model Cities Program. Planned Variations expanded the geographical area covered by the Model Cities Program and provided additional funds to the city to help accomplish the Model Cities Program objectives. As of March 31, 1973, HUD had allocated about \$17.3 million to the city for the Model Cities and Planned Variations Programs. As of March 31, 1973, CDA had incurred costs of about \$7.6 million.

CITIZEN PARTICIPATION

HUD, under the Model Cities Program, requires that a citizen organization be established to provide for neighborhood resident participation in policy and program planning and project implementation and operation. The CDA board and five separate citizen organizations in the city have helped plan and approve the Model Cities and Planned Variations Programs.

As of March 31, 1973, about \$655,000 had been spent for citizen participation. Of this amount, \$615,000 was expended for a single project--Project Life--which we reviewed.

Project Life

Project Life was started in October 1969 to maximize citizen participation in the Model Cities Program by providing a staff for assisting citizen organizations in their participation in the Model Cities policy and program planning.

We examined the CDA-maintained cost statements and supporting documentation for Project Life as of March 31, 1973. Costs reported to CDA were not always adequately supported by appropriate documentation as CDA and HUD required. Documentation was available to support about \$218,000 of the \$615,000 in reported costs. Also, we found little quantifiable data at CDA or Project Life offices to show project results or accomplishments.

We discussed the results of our review with city and HUD officials. City officials said the project did not include an accounting and reporting system that could be used to make a comprehensive audit and performance review of the project. They added that the Project Life records were probably not auditable but that they would expect the HUD auditors to determine whether the expenditures made were eligible after the Model Cities Program was terminated.

HUD officials said they were unaware of the lack of documentation for Project Life expenditures and program results. They said, however, they would try to reconcile the Project Life expenditures.

CDA's controls over project expenditures were not adequate because Model Cities funds were provided to Project Life even though this agency did not submit documentation to CDA as HUD regulations required.

MANPOWER AND JOB DEVELOPMENT

East St. Louis Model Cities activities in the manpower and job development area have been directed toward increasing employment opportunities for Model Cities residents by reducing employment barriers. For example, projects were established to increase skills through training and work study programs, coordination of citywide services, enforcement of equal opportunity ordinances, and development of personnel selection and hiring procedures.

Expenditures of \$493,864 had been charged to six manpower and job development projects through March 31, 1973. We reviewed two projects with combined expenditures of \$413,038--the Urban Affairs project and the Emergency Employment project. The purposes of these projects were to obtain and improve employment and training opportunities for the Model Cities residents and to improve public services in the Model Cities neighborhood.

Urban Affairs

Documentation for expenditures totaling \$283,297 was adequate and was maintained in accordance with CDA regulations. However, questionable charges of \$16,780 were made to the project. Of this amount, \$13,410 was for a heating system installed in the East St. Louis City Hall. This was not a proper charge to the Model Cities Program because it was not related to the accomplishment of the project objective of obtaining and improving employment and training opportunities for Model Cities residents. Other questionable items of \$3,370 included amounts expended by the Urban Affairs project for uniforms, paint supplies, and insurance costs in support of employees placed for the Department of Health, Education, and Welfare's Emergency Employment Act (EEA) Program.

As part of its function the Urban Affairs project performed the orientation, counseling, and placement activities for the EEA Program in East St. Louis. Urban Affairs officials said this project's major accomplishment was the orientation and counseling for about 1,800 EEA applicants. They added that about 1,100 of these applicants were placed in EEA funded jobs. We were unable to verify these accomplishments because the project did not keep orientation, counseling, and placement records nor were records available to support the project's activities.

City officials did not agree with our conclusion on the installation of a heating system in the City Hall; however, they did state that amounts expended in support of EEA employees were improper charges to the Urban Affairs project and would be corrected. HUD officials said all the items we questioned were inappropriate charges to the Model Cities Program and they would follow up to insure that corrective action was taken by CDA.

Emergency Employment

The Emergency Employment project's primary objectives of hiring 37 Model Cities residents and purchasing four trucks for the Public Works Department of the city were met. In addition, documentation in support of expenditures of \$129,741 was adequate and maintained in accordance with HUD and CDA regulations.

ENVIRONMENTAL PROTECTION AND DEVELOPMENT

The environmental protection and development area included projects for physical improvements and increased sanitary services in the city. The objectives of the projects in this area were to provide a suitable environment for residents by improving physical appearances, increasing community facilities, and improving public services.

CDA had implemented or planned a total of 25 projects. Five projects, with expenditures of about \$758,000, were included in our review.

<u>Project</u>	<u>March 31, 1973, expenditures</u>
Demolition	\$420,066
Construction Streets, Curbs, and Gutters	150,000
Garbage Pickup	71,682
Secondary Sewage Treatment	64,000
Lot and Alley Trash Collection	<u>52,272</u>
Total	<u>\$758,020</u>

Review of projects

The Demolition project and Construction of Streets, Curbs, and Gutters project were aimed at enhancing the physical environment of the city by razing about 200 vacant and abandoned structures each year and constructing and improving streets. The remaining projects, Lot and Alley Trash Collection, Garbage Pickup, and Secondary Sewage Treatment, were to increase city services by providing for improved garbage and trash collection and to pay part of the design costs of a secondary sewage treatment plant.

Generally, costs incurred under these projects were adequately supported. However, costs of about \$85,910 were questionable because they were not related to the project objectives or were made for work

that was performed before HUD approved the projects. For example, Model Cities funds of \$64,000 were used for work which was performed on the Sewage Treatment project before approval. The cost of seven automobiles was charged to the Demolition project (\$16,942), even though employees not assigned to this project used the automobile.

City officials said the costs charged to the Sewage Treatment project and the cost of the automobiles charged to the Demolition project were proper but gave no specific reason.

HUD officials agreed that Model Cities funds should not have been used to pay for work on a project (Secondary Sewage Treatment) before the project was approved and that the other questionable charges seemed inappropriate.

RECOMMENDATIONS

We recommend that the Secretary of Housing and Urban Development require CDA to improve its monitoring and control of the Model Cities Program by (1) strengthening its controls over project expenditures and (2) requiring operating agencies to maintain records to show the project accomplishments and progress in reaching approved goals. We recommend also that the Secretary require CDA to review the eligibility of the expenditures we questioned and to recover from the operating agencies those Model Cities funds which are determined to have been expended for ineligible purposes.

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As requested by your office, we did not give HUD or the city an opportunity to formally review and comment on the matters discussed in this report. However, we have discussed these matters with officials of these organizations and included their comments when appropriate.

C2 As agreed with your office, we are sending copies of this report to Congressman Melvin Price and the Secretary of Housing and Urban Development.

C3 Also, as agreed, copies of the report are being sent to the Chairman of the House and Senate Committees on Government Operations and on Appropriations.

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We plan to make no further distribution of this report unless you agree or publicly announce its contents.

Sincerely yours,



Deputy Comptroller General
of the United States