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UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

GENERAL GOVERNMENT
DIVISION

JUN 5 1973



The Honorable William W. Blunt, Jr.
Acting Assistant Secretary
for Economic Development
Department of Commerce

Dear Mr. Blunt:

We have completed a review of the underlying causes of delay which have impeded start of construction of the Economic Development Administration (EDA) public works projects. The review was undertaken because of EDA and the Congress' interest in preconstruction delays. We recognize that EDA's authorization to approve new projects expires June 30, 1973, and that renewal is questionable so we are presenting only a very broad summary of our findings and our detailed recommendations for your consideration. We believe this information may still be helpful since there are projects in the preconstruction stage.

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We examined 27 projects in or near 25 communities in 10 states to identify the underlying causes of delay in preconstruction and to determine what could be done to expedite the start of construction. The projects were administered by the Southeast and Southwestern regional offices. Project types included (1) air, (2) sewer, (3) roads, (4) schools, (5) folk cultural center, (6) day-care center, (7) harbor facilities, (8) tourism facilities, and an industrial park. The earliest approval date was June 8, 1968 and the latest was March 13, 1970. Fourteen of the 27 were approved in 1968.

Although varying in degree, the following characteristics were present in the projects we examined:

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- they were approved by EDA before many conditions prerequisite to construction start were finalized and despite the fact that delay problems were either known with certainty or were predictable at the time of project approval.
- they were administered locally without a sense of urgency, in many instances by individuals who because of inexperience, incompetence, and/or neglect procrastinated or were indecisive.
- they were plagued by breaks in communication and coordination between the numerous parties involved in the project's development.
- they did not receive aggressive monitoring from EDA, and prodding by the local citizenry was not evident.
- they were allowed to exceed reasonable limits of timeliness without actual or threatened termination by EDA.

The following table shows the underlying causes of these delays on the 27 projects we examined.

<u>Underlying causes</u>	<u>Number of Projects</u>
Financing arrangements	18
Inadequate communication	13
Grantee inexperience	10
Procrastination:	
Grantee	12
Architect/engineer	6
Attorney	4
Land acquisition	9
Approvals by other agencies	9
Excessive workload:	
Architect/engineer	6
Attorney	1
Related projects	5
EDA requirements added	5
Grantee indecision	4
Citizen opposition	1

Note: Most projects had more than one underlying cause of delay although one usually triggered the others.

We have listed several recommendations we developed based on a continuing program. Some of the recommended requirements could be implemented on already-approved projects to expedite the start of construction.

Financing Requirements

EDA should require that:

1. Grantee/borrowers submit a firm financial plan as a condition of project approval.
2. Grantee/borrowers provide evidence as a condition of project approval that the necessary matching funds to be provided by other governmental agencies or lending institutions will in fact be made available. Also disclosure should be made as to the amount of Federal funds being distributed through the State agencies for the projects.
3. A referendum be passed prior to project approval where doubt exists as to the desires of the community.
4. During the application and subsequent financial reviews consideration be given to the effects of State and local interest rate restrictions on the marketability of bonds in the open market.
5. Assurances be received from grantee/borrowers prior to project approval that sufficient revenues will be generated to support proposed revenue bond issues.

Use of Special Conditions to Grant Approvals

EDA should:

1. Attach special conditions to grant/loan agreements only where the nature of such conditions will not permit their completion prior to project approval.
2. Establish specific requirements that water purchase contracts be signed and bond referendums passed prior to project approval.

Architect/Engineering Agreement and Services

EDA should:

1. Implement its requirement to include a specific timetable in all architect/engineering contracts.
2. Require a signed agreement between the grantee/borrower and the architect/engineer prior to project approval.
3. Require that the grantee/borrower give prompt notice to proceed to the architect/engineer upon acceptance of the grant/loan agreement.
4. Require that as soon as possible but no later than 15 days after EDA's project approval, the grantee/borrower will place in escrow an amount necessary to reasonably compensate the architect/engineer for services rendered, unless the architect/engineering contract makes such guarantee unnecessary. We were informed that the architect/engineers were, understandably reluctant to proceed until assured of payment for their services.

Legal Services Agreement

EDA should:

1. Develop a suggested legal service agreement to aid grantee/borrowers in determining the type and scope of legal services to be contracted for.
2. Require an approved legal service agreement prior to project approval. The agreement should include a timetable for completing specified services.

Changes in Local Administration

EDA should require as part of the standard conditions to the grant/loan agreement and/or the proposed legal services agreement that notification be made of impending changes in local administration for uncompleted projects, so it can follow up and meet with new officials to explain their duties and obligations on EDA's projects.

Planning Conferences

EDA should:

1. Arrange to hold the planning conference as soon as possible after project approval but no later than 1 week after project ~~approval~~ by the grantee/borrower.
2. Require that proposed completion dates be established at the time of the planning conference for post approval events not covered in the architect/engineering and legal services agreements.

Rotation of Construction Management Representatives

EDA should consider establishing a uniform rotation policy which would allow for jurisdictional changes but require that individual project assignments be made for the full duration of the project to maintain continuity.

Construction Bid Overruns

EDA should take firm action to resolve any problems in financing potential overruns when they first appear.

Problem Identification and Solving

EDA should:

1. Establish and maintain project monitoring assignments within manageable limits. Most of the construction management representatives interviewed indicated that their workloads combined with travel time were too large to permit frequent contact with problem projects.
2. Encourage aggressive monitoring of approved projects including follow-up on completion dates established at the planning conference. Frequent contacts, including visits, should be made during project development with increased emphasis being placed on progress during the first few months after approval.

Contacts should not be limited to architect/engineers but should include all principal parties.

3. Maintain complete records of all contacts with grantees/borrowers or their contractors. Such records should indicate the purpose of the contacts, agreements reached, and other observations which may be appropriate.
4. Follow problem identification with problem solving to the extent possible. The circumstances surrounding delays, recommended actions and deadlines for resolution of the problems should be contained in EDA project reports to the grantee/borrower and EDA regional and headquarters officials. EDA should revise its problem project briefs to include lists of all delaying factors, and a monthly log-type entry under "Action being taken" to quickly and concisely indicate when promised action is still promised months later and what action EDA has taken.

Termination of Grant/Loan Agreements

EDA should establish standards of timeliness for completing the various preconstruction management events for uniform application throughout the regional offices and establish guidelines to provide timely termination of grant/loan agreements. The appointment of a special committee to periodically review and evaluate projects with delays in construction starts should be incorporated into such guidelines.

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We understand that the type of projects funded by the EDA public works program may in the future be funded by the U.S. Department of Agriculture with funds authorized by the Rural Development Act of 1972. For this reason you may wish to forward a copy of this letter to the U.S. Department of Agriculture for their consideration.

We wish to acknowledge the courtesies and cooperation extended to our representatives during the review. We would appreciate receiving information as to your action or views on the matters discussed in this letter.

Copies of this letter are being sent to the Assistant Secretary for Administration, and the Director, Office of Audits, Department of Commerce.

Sincerely yours,

Donald C. Pullen

Donald C. Pullen
Assistant Director