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Review Of Certain Aspects Of The Model Cities Program In Atlanta, Georgia

B-171500

Department of Housing and
Urban Development

**BY THE COMPTROLLER GENERAL
OF THE UNITED STATES**

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JULY 6, 1972



COMPTROLLER GENERAL OF THE UNITED STATES

WASHINGTON, D.C. 20548

B-171500

Dear Mr. Blackburn: *CJR*

This is in response to your letter of February 17, 1972, regarding the August 31, 1971, internal audit report of the Department of Housing and Urban Development (HUD) on its examination of the Atlanta Model Cities Program for the period December 1, 1968, through May 31, 1971. You asked that we determine whether corrective actions had been taken on the seven findings contained in that report. 23

C2 You also requested that we follow up on the complaint, included in our report to Congressman Fletcher Thompson on the Atlanta Model Cities Program (B-171500, Aug. 20, 1971). Residents of the Adair Park area of the model neighborhood complained that, under a housing rehabilitation project in Adair Park, Model Cities housing inspectors had made unreasonable demands on Adair Park homeowners to make repairs to their homes before selling them so that potential buyers could qualify for Federal mortgage insurance. The residents indicated that these demands had been made to discourage them from leaving Adair Park and moving to the suburbs of Atlanta.

During our review we informed your office that the Atlanta City Demonstration Agency (CDA), which administers the Model Cities Program in Atlanta, did not perform housing inspections and that the housing inspections referred to by the Adair Park residents were made by the Atlanta Housing Authority or by Atlanta's Inspector of Buildings. This aspect of your request is related to the audit work we are performing for you on the administration of HUD's rehabilitation loan and grant programs in Atlanta; therefore we are examining housing inspection matters during our review of the administration of that program. P-2070

We met with representatives of CDA to discuss HUD's audit findings and the actions taken to implement HUD's recommendations. We met also with HUD central office officials in Washington, D. C., and with HUD regional and area office officials in Atlanta to discuss the followup actions taken by HUD on the audit findings.

A brief description of the Model Cities Program in Atlanta and the results of our review are presented in the following sections.

THE MODEL CITIES PROGRAM IN ATLANTA

In November 1967 HUD selected the city of Atlanta to participate in the Model Cities Program. HUD awarded the city a grant of \$245,500 for planning and developing a comprehensive 5-year program to concentrate and coordinate an attack on the social, economic, and physical problems of Atlanta's model neighborhood.

HUD awarded the city three supplemental grants of \$7,175,000 each for the implementation of its program. Grants were awarded to the city in May 1969, June 1970, and January 1972 for the first, second, and third "action" years of program operations. CDA records showed that, as of March 31, 1972, about \$12.6 million of HUD supplemental grant funds had been expended.

As of March 31, 1972, the Atlanta CDA and its operating agencies had a staff of 870 employees assigned to the Model Cities Program. Forty-eight employees worked for CDA, and the remainder were employed by operating agencies administering projects for CDA.

HUD AUDIT FINDINGS ON
THE MODEL CITIES PROGRAM IN ATLANTA

The HUD internal audit report of August 31, 1971, contained seven findings. On September 22, 1971, HUD sent the report to the Mayor of Atlanta for review and comment by the city and CDA. On October 20, 1971, CDA advised HUD of corrective actions it had taken, or planned to take, on the audit findings and recommendations.

In February 1972 HUD provided you with a summary of its audit and the resultant corrective actions. HUD stated that, although the amount of costs questioned during the audit was small, the findings illustrated the need for CDA to implement more effective procedures for monitoring and evaluating operating agencies' administration of Model Cities projects. HUD stated also that, on the basis of actions planned by CDA, five of the seven findings were considered closed.

When we initiated our review in Atlanta, there was conflicting information within HUD and differences of opinion among HUD officials as to which audit findings were closed. After we performed certain audit work at the HUD regional and area offices in Atlanta, at CDA, and at the city's Department of Finance, we discussed with HUD officials the actions taken by CDA on HUD's findings as well as on HUD's monitoring of these actions. We requested HUD to clarify its position on the status of the findings and the actions required by CDA and HUD to resolve any open findings.

On March 16, 1972, the administrator of the HUD Atlanta regional office gave us a report on the status of the HUD findings and the follow-up actions taken by CDA and HUD. In a letter to CDA dated March 20, 1972, HUD explained its position on actions taken or being taken by CDA on the audit findings. HUD advised CDA at that time that four of the seven audit findings had not been resolved and that certain actions would be required by CDA to close these findings.

By letter dated April 5, 1972, CDA advised HUD of the actions it planned. HUD evaluated the actions planned and on April 28, 1972, advised CDA that six of the seven findings were closed. HUD stated that the one open finding would be resolved when the city submitted to HUD documentation to support certain travel costs charged by the city to the Model Cities Program or documentation showing that these costs had been removed from the administrative costs charged to the program.

The actions taken or planned by the CDA on the six findings closed by HUD appeared to us to be adequate. The seven HUD audit findings are discussed below.

Finding 1--Need to improve
monitoring of operating agencies

HUD auditors reported that CDA had not effectively monitored its operating agencies to ensure that program funds were used for intended purposes. At the time of the HUD audit, CDA had contracts with 28 operating agencies but had audited only one of these agencies.

During the time HUD was preparing its audit report, CDA advised HUD auditors that it had completed audits of the 28 first action year operating agencies and that it was taking steps to correct the deficiencies disclosed by these audits. HUD auditors made a selective review of the CDA audit reports and the related working papers and concluded that CDA was monitoring its operating agencies in an acceptable manner.

The HUD Regional Administrator advised us that this finding was closed because CDA had completed audits of all first action year operating agencies and therefore had complied with HUD requirements. He stated also that HUD had requested CDA to provide a statement to HUD on the results of its audits of the operating agencies. In its April 5, 1972, letter to HUD, CDA concluded that the internal controls of its operating agencies were adequate. HUD told CDA that it considered this finding closed.

CDA provided us with information showing the status, as of May 4, 1972, of its audits of the 33 operating agencies administering the 47 second action year projects for CDA. This information showed that field-work had been completed on 41 projects, audit findings had been reported

to the operating agencies on 33 projects, and final reports had been issued on 15 projects. CDA advised us that it planned to audit all second action year projects by June 30, 1972.

CDA officials told us that, in addition to the audits, periodic on-site visits were being made by CDA to the operating agencies and that reports on these visits were being prepared. We verified that CDA was preparing such reports; however, we did not evaluate the adequacy of CDA monitoring efforts.

Finding 2--CDA has not adequately monitored relocation activities

HUD auditors reported that CDA files did not contain evaluation studies or other evidence to indicate that CDA had adequately monitored the relocation assistance activities of the Housing Authority of the city of Atlanta, which conducted the Model Cities relocation program for CDA. HUD auditors suggested that CDA monitor activities of the relocation assistance program and requested the housing authority to determine whether any additional relocation benefits were available for relocated families.

At the time of the HUD audit, CDA advised HUD that it would establish a monitoring procedure for relocation assistance activities and that it had requested the housing authority to contact the families that were moved from their homes in the model neighborhood to determine whether they were eligible for additional relocation payments.

HUD recommended, in its letter transmitting the audit report to the Mayor of Atlanta, that the housing authority report to CDA and HUD all relocation payments made to model neighborhood residents.

In October 1971 CDA advised HUD that it had requested the housing authority to provide it with (1) a current report on relocation payments made to model neighborhood residents and (2) monthly reports on relocation payments to model neighborhood residents. Subsequently CDA and HUD received the housing authority's first report which included the relocation payments made during the period February to November 1971. In March 1972 HUD notified CDA that the finding was closed and that HUD would verify the effectiveness of the monitoring procedures established by CDA.

Housing authority representatives advised us at the time of our field-work that they had reviewed their case files for the relocated model neighborhood families and had found that none of these families had received additional relocation payments. The representatives stated that certain relocated model neighborhood families might become eligible for additional relocation payments in the future if they (1) were within the income range acceptable for public housing and (2) applied for and were denied a public housing unit because none were available.

Finding 3--Need to document followup action
taken to resolve deficiencies
cited in project evaluation reports

HUD auditors reported that CDA had not documented the action it and its operating agencies took to resolve operational deficiencies cited in CDA's reports on its project evaluations. Consequently the auditors could not determine from CDA's records what actions, if any, had been taken by CDA and its operating agencies. The auditors recommended that CDA establish procedures for documenting the actions taken to resolve problem areas identified in the evaluation reports.

CDA advised the HUD auditors that it followed up on findings contained in evaluation reports but that it did not document such efforts. CDA also told the auditors that it would develop procedures for documenting actions taken to resolve problem areas identified in the evaluation reports. On April 5, 1972, CDA provided HUD with a copy of its new procedures. HUD advised CDA that this finding was closed.

Finding 4--An affirmative action plan
had not been developed to assure
maximum opportunities for businesses
located in the model neighborhood area

HUD auditors reported that the procurement policies that the city required CDA to follow did not assure compliance with the requirement of the grant agreement with HUD that model neighborhood businesses, to the greatest extent feasible, be awarded contracts resulting from the local Model Cities Program. The auditors expressed the belief that CDA should make a greater effort to award contracts to businesses located in, or owned by residents of, the model neighborhood. Accordingly the auditors recommended that CDA provide maximum opportunities to model neighborhood businesses and that a policy statement be issued by CDA to that effect. CDA agreed with the HUD finding and issued a policy statement.

Because the city of Atlanta had a long-standing policy of awarding contracts to the lowest bidders meeting specifications, the city attorney's office, at CDA's request, rendered a legal opinion to the Purchasing Committee of the city--the organizational unit of the city which approves CDA's contracts--that preferential treatment could be given to model neighborhood businesses on Model Cities contracts (i.e., a model neighborhood business could be awarded a Model Cities contract although it did not submit the low bid).

The HUD Regional Administrator advised us that this finding had been closed on the basis of the legal opinion which affirmed the right of CDA to give preferential treatment to model neighborhood businesses in the award

of Model Cities contracts. The Regional Administrator advised us also that, after obtaining the legal opinion and issuing the policy statement, CDA was giving such preferential treatment to model neighborhood businesses.

CDA provided us with information which showed that as of March 1972 model neighborhood businesses had received Model Cities contracts totaling about \$800,000 from CDA and its operating agencies.

Finding 5--Administrative policies
and procedures of operating agencies
not approved by CDA

HUD auditors found that CDA had not reviewed and approved the operating agencies' administrative policies and procedures applicable to the operation of the Model Cities Program, although required to do so by HUD. HUD auditors recommended that CDA review and approve these policies and procedures and determine whether they were approved by the operating agencies' governing bodies.

CDA advised HUD in October 1971 that the administrative policies of its operating agencies were on file at CDA and that they were available for review by HUD.

In March 1972 the Regional Administrator informed us that this finding was open and that CDA would be instructed to provide assurance to HUD that the administrative policies of its operating agencies were not only available for review by HUD but that they had been reviewed and approved by CDA.

The administrative policies of the 27 third action year operating agencies, except those for the 10 State and city operating agencies, were on file with CDA. A CDA official advised us that the policies of the State and city agencies were on file at the respective agencies. At the time of our fieldwork, CDA and its operating agencies were reviewing the administrative policies of the operating agencies to ensure that they were in consonance with CDA's administrative policies.

On April 5, 1972, CDA advised HUD that the administrative policies of the 27 operating agencies had been reviewed and approved. CDA advised us that, in the future, it would review and approve the administrative policies of its operating agencies before entering into contracts with these agencies. HUD advised CDA that this finding was closed.

Finding 6--Contracting deficiencies
relating to negotiated third-party contracts

The HUD audit report included the following statements.

- CDA had not included in its files adequate documentation to support the reasonableness of consultant contract fees or the basis for selection of contractors.
- The contract pricing arrangement with Urban East Housing consultants, an operating agency, was questionable in that it appeared that the provisions of an extension of that contract inadvertently changed the pricing arrangements set forth in the original contract.
- Two contracts awarded by operating agencies to subcontractors (third-party contracts) did not incorporate the HUD required Supplemental General Conditions. These conditions contain standard contract clauses which take precedence over any conflicting conditions in the contract.

HUD requested CDA to review the deficiencies and to advise it of the corrective actions taken. HUD also requested CDA to assemble all documents related to the Urban East contract.

CDA advised HUD that the deficiencies were corrected because CDA (1) would require that justifications be prepared for the use of consulting services and that files be documented before it would make future payments for such services, (2) incorporated the required Supplemental General Conditions into all contracts, and (3) retained copies of third-party contracts. CDA advised HUD that the documents related to the Urban East contract were assembled and ready for HUD's review.

The HUD area office advised CDA in December 1971 that, to close this finding, the HUD area office staff should review the Urban East contract documents when its schedule permitted.

The HUD Regional Administrator advised us in his report of March 16, 1972, that the HUD regional office staff examined the Urban East contract documents and concluded that the pricing arrangements outlined in the provisions of the extension of that contract did not change the pricing arrangements set forth in the original contract.

The Regional Administrator also advised us that part of this finding was still open. In its letter to CDA of March 20, 1972, HUD stated:

"*** before we can take final action on all aspects of the finding, we will need from you a statement that you have developed and installed a system that will clearly and without any question assure the carrying out of the requirements of CDA Letter 8 as they relate to contracting, in general, and in particular as they relate to the basis of selection for contractors and the establishment of reasonableness of price for negotiated contracts."

On April 5, 1972, CDA advised HUD that it had installed a contractor selection system to ensure compliance with the HUD contracting requirements. HUD advised CDA that this finding was closed.

Finding 7--Lack of documentation
for travel expenses

HUD auditors found that CDA had recorded travel costs of \$1,943.63 for the Model Cities Program but had not supported these expenditures with receipts or travel vouchers. The auditors recommended that CDA furnish HUD with documentation to support these travel costs. CDA officials advised HUD auditors that the Finance Department of the city of Atlanta would provide copies of the travel vouchers to support these expenditures.

HUD suggested to CDA that it review the vouchers when received from the city Finance Department to determine whether the costs were eligible to be charged to the Model Cities Program. HUD subsequently reviewed the information submitted by the city Finance Department and, in its December 1, 1971, letter to CDA, stated that the finding had been adequately resolved.

We reviewed the documentation submitted by the city Finance Department and concluded that it did not support the travel costs in question. We discussed this matter with HUD regional and area office officials. In a March 16, 1972, report, the Regional Administrator advised us that the finding was being reopened and that CDA would be required to provide HUD with adequate documentation to support such costs.

On March 20, 1972, HUD advised CDA that the documentation previously furnished was not adequate. HUD requested documentation verifying the nature and detail of the travel and advised CDA that, if it was unable to

furnish such documentation, it should furnish HUD with documentation showing that \$1,943.63 had been removed from the administrative costs charged to the Model Cities Program.

In its April 5, 1972, letter to HUD, CDA stated that the documentation supporting the travel costs had been requested from the city Finance Department and that it would be forwarded to HUD. In its letter of April 28, 1972, HUD advised CDA that this finding remained open.

On June 7, 1972, HUD advised us that it had examined the documentation provided by the city Finance Department and found that \$1,077.21 was eligible to be charged to the Model Cities Program. The remaining \$866.42 was ineligible because it had been incurred before the date established by HUD as the effective beginning date for charging costs to the Model Cities Program. HUD further advised us that it was in the process of determining whether it would allow the \$866.42 to be charged to the Model Cities Program.

HUD, CDA, and other parties mentioned in this report have not been given an opportunity to examine and comment on this report. The contents of the report are based on information that was available in their files or furnished by them and was discussed informally with them.

Sincerely yours,



Comptroller General
of the United States

air
The Honorable Ben B. Blackburn
House of Representatives