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11-22-74

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



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C The Honorable Carl Albert, Chairman
House of Representatives



C Dear Mr. Chairman:

In response to your request we monitored the actions taken by the
1 Department of Housing and Urban Development (HUD), the city of Lansing,
2 Michigan, and the Lansing City Administration Agency (CDA) to resolve
3 HUD audit findings relating to the Lansing Model Cities Program. On
4 September 17, 1974, we discussed with your representatives the status
of our monitoring efforts. In view of the actions taken by HUD, the
city, and CDA, it was agreed that we would not do any additional work.
As requested, we are providing you with a summary of actions taken by

--the city and CDA to resolve HUD audit findings,

--HUD to insure that corrective steps were taken by the
city and CDA, and

--the city and CDA to resolve findings reported by an
independent public accountant on its audits of model
cities operating agencies.

As your office instructed, we did not audit CDA or its operating agencies
to verify the adequacy of corrective actions taken.

THE MODEL CITIES PROGRAM IN LANSING

In October 1968, HUD, which administers the Model Cities Program
at the national level, selected the city of Lansing to participate in
the Model Cities Program. HUD awarded the city a planning grant of
\$128,000 to develop a comprehensive program to deal with the social,
economic, and physical problems of Lansing's model neighborhood. Lansing
established a separate agency--CDA--to develop and administer its Model
Cities Program. In carrying out specific projects or activities, CDA
contracted with local agencies--both governmental and nongovernmental.
The agencies are generally referred to as model cities operating agencies.

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Through its fourth program year ended June 30, 1974, CDA spent \$12 million of the \$13.2 million in Federal funds authorized for the Lansing Model Cities Program.

HUD'S AUDIT OF THE PROGRAM

On May 10, 1973, the HUD Inspector General issued an audit report on the program in Lansing for the period October 1, 1969, to January 31, 1973. HUD reported that CDA's monitoring and evaluation of operating agencies activities was deficient and that CDA's accounting records were incomplete and inadequate. Further, HUD reported that model cities operating agencies were not audited annually, although required by HUD regulations.

On May 15, 1973, the HUD-Detroit area office told Lansing city officials of the HUD findings. On July 2, 1973, HUD told city officials of the specific actions that were required to resolve each audit finding.

CDA took certain actions to correct the deficiencies noted, and on August 7, 1974, after reviewing the actions, HUD told CDA officials that the HUD findings had been satisfactorily resolved.

Following is a brief description of the major HUD audit findings and corrective actions taken by CDA.

Monitoring and evaluation

HUD reported that CDA did not adequately monitor the activities of the model cities operating agencies. HUD pointed out that CDA should make an ongoing analysis of the operating agencies and their respective projects. Further, CDA had not made an impact evaluation to determine the effect the Model Cities Program had on the model neighborhood residents.

CDA officials said the report showed a lack of understanding of their four-level monitoring and evaluation system.

--Project monitoring is done by CDA Program Management staff to "keep abreast" of project operations and to provide assistance to projects and protect the interests of citizens, clients, and the city.

--Project evaluations are made by the CDA Evaluation Division and the Citizens' Evaluation Task Force. These evaluations, which are made as needed, are based on monthly progress reports from operating agencies and may include discussions with agency staffs and client surveys.

- Program evaluation is a functional evaluation conducted by CDA Evaluation Division with input from the citizens, staff, and consulting services. This evaluation is designed to determine if objectives are being achieved in such areas as housing, health, and employment.
- Impact evaluation is to identify overall improvements in the conditions of life and environment in the model neighborhood.

CDA said that the first three levels of monitoring and evaluation are made on an ongoing basis. Further, CDA officials said an overall impact evaluation would have been premature since the type of changes to be measured only occur over a long timespan.

After evaluating CDA's response, HUD concluded that there was an adequate monitoring and evaluation system. Furthermore, HUD agreed with CDA that an impact evaluation could not be conducted over short intervals of time. After obtaining assurance that CDA would make an impact evaluation, HUD said that these findings had been cleared.

Adequacy of accounting records

HUD reported that CDA accounting records and financial statements had not been maintained in accordance with generally accepted accounting principles. HUD added that, as a result, CDA could not adequately account for funds received from HUD. Further, HUD reported that CDA had not taken steps to improve its accounting and management system.

In response, CDA officials said that the city was making a thorough analysis of its balance sheet accounts and added that all operating agencies costs were being reconciled with fund advances made to CDA by the city.

In October 1973 CDA reported to HUD that a new financial management system had been implemented. Also, CDA reported that the city had reconciled the balance sheet accounts, project costs, and project advances.

A HUD official said that before clearing these findings the HUD audit staff had verified the corrective actions that CDA had taken.

Audits of operating agencies

HUD reported that most CDA-operating agencies were not audited on an annual basis, although required by HUD regulations. Further, HUD said the city audits of model cities operating agencies were inadequate.

The HUD report recommended that CDA contract with an independent public accountant to audit each operating agency that had received funds since the inception of the program in Lansing, including all those agencies which the city had audited.

In September 1973, the city contracted with a firm of certified public accountants to audit the 46 operating agencies that participated in the program during its first 3 years. As the audits were completed reports were issued by the accounting firm. The first group of reports was issued on February 22, 1974, and the last group was issued on July 26, 1974. A total of 46 reports were issued, one for each agency audited. The period covered by the audits of the operating agencies varied between agencies but generally included the time from inception of the agency through the completion of the third action year (July 31, 1973) of the program.

Following is a summary of the opinions expressed in the reports on the reasonableness of the financial statements reviewed.

<u>Number of reports</u>	<u>Federal grant amount</u>	<u>Accountant's opinion</u>
^a 31	\$4,165,745	Financial statements fairly present the financial position of the operating agency.
15	2,131,607	Opinion could not be expressed on financial statements primarily because of the lack of adequate documentation to support financial transactions.
<u>46</u>	<u>\$6,297,352</u>	Total

^a One operating agency is a defendant in a lawsuit in the amount of \$500,000.

The accounting firm also reviewed certain activities of the operating agencies to determine if costs incurred were eligible and if the terms and conditions of contracts between CDA and the operating agencies were followed. Thirty-six reports contained findings of either ineligible costs or inadequate administrative controls or practices.

Under the Model Cities Program, CDA is responsible for insuring that operating agencies correct deficiencies reported. As of September 16, 1974, the status of CDA's actions to resolve the findings reported by the accounting firm follows

<u>Number of reports</u>	<u>Status</u>
24	Findings cleared by CDA
5	Findings partially cleared by CDA
<u>7</u>	Findings not cleared
<u>36</u>	Total

The city Director of Finance, who verifies the actions taken to clear audit findings, could not provide a specific time as to when the uncleared findings would be resolved. He added, however, that findings in the 12 reports not yet cleared would be resolved as soon as possible.

Our analysis indicated that controls established by CDA and the city to resolve the accounting firm's audit findings were adequate. Under its procedures, CDA requested the operating agencies, after receiving the audit report, to specifically comment on the findings and report on the corrective actions taken. In addition, a member of the Lansing Director of Finance staff independently verified the corrective actions taken by the operating agencies.

After receiving notification that the city verified that the necessary corrective actions had been taken, CDA also verified actions taken by each operating agency. On the basis of this subsequent evaluation, CDA either cleared the findings or informed the operating agency of specific measures that should be taken before it would consider the findings satisfactorily resolved.

The Lansing Director of Finance told us that the CDA fiscal office and all operating agencies that were active during the fourth action year (August 1, 1973 through July 31, 1974) would be audited by a certified public accountant and the reported deficiencies would be resolved on a timely basis.

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As your office requested, we did not give HUD or city officials 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 as appropriate.

We do not plan to distribute this report further unless you agree or publicly announce its contents.

Sincerely yours,

Comptroller General
of the United States

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