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

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The Honorable Wright Patman
Chairman, Committee on Banking
and Currency
House of Representatives

Dear Mr. Chairman:

Your letter of September 14, 1972, requested the General Accounting Office to review the Model Cities Program in Newark, New Jersey. This program, which was to demonstrate that the living environment and general welfare of people living in slums or blighted neighborhoods could be improved through a comprehensive, coordinated Federal, State, and local effort, was initiated in Newark in 1968. At December 31, 1972, the City of Newark had been awarded about $18.3 million in Model Cities funds from the Department of Housing and Urban Development (HUD) to assist it in carrying out its Model Cities Program.

The development and implementation of the Model Cities Program, at the local level, is the responsibility of a city demonstration agency (CDA) which is generally an administrative unit of the city. Pursuant to your request and in accordance with subsequent discussions with Congressman Joseph G. Minish, we reviewed the activities of certain organizational components of CDA. Our work included an examination of costs incurred for travel, contractual services, and salaries of CDA employees. In addition, we reviewed certain Model Cities projects.

On March 15, 1973, at the request of Congressman Minish, we met with the members of the oversight subcommittee of your Housing Subcommittee to discuss the results of our work. At the conclusion of this meeting, the subcommittee members requested that we provide you a report on our review. The matters which we discussed during the meeting, together with additional data we subsequently obtained, are presented as an enclosure to this letter.

As requested by the members of your oversight subcommittee, HUD officials and officials of the City of Newark have not been given the opportunity to formally examine and comment on the matters discussed in this report.

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

Sincerely yours,

PAUL G. DEMBLING
For the Comptroller General
of the United States

Enclosure

ENCLOSURE

REVIEW OF CERTAIN ASPECTS OF THE MODEL CITIES PROGRAM IN NEWARK, NEW JERSEY

BACKGROUND

The Model Cities Program was established by Title I of the Demonstration Cities and Metropolitan Development Act of 1966 (42 U.S.C. 3301). A local Model Cities Program consists of (1) a 5-year comprehensive demonstration plan which describes the needs of the city in terms of projects required to make a substantial impact on social, economic, and physical problems of the city, and (2) annual "action" plans which outline projects to be implemented each year.

HUD provided $204,000 to the City of Newark to aid it in planning its Model Cities Program and subsequently awarded about $18.3 million in HUD "supplemental" funds to develop and implement the projects established by the city under its HUD-approved Model Cities Program. As of December 31, 1972, the city had spent about $10.2 million of the $18.3 million of HUD supplemental funds.

We reviewed expenditures that were made by CDA during the 15-month period, July 1, 1971 through September 30, 1972, which was the second action year of the Newark Model Cities Program.

PRIOR REVIEWS OF THE NEWARK MODEL CITIES PROGRAM

The HUD Office of Audit performed two reviews of the Newark Model Cities Program--one covering a 15-month period from the inception of the program to March 31, 1969, and the second review covering the subsequent 27-month period ending June 30, 1971. In addition, at the request of CDA, a certified public accounting firm--Lucas, Tucker and Company--reviewed the financial transactions and the operations of CDA and its operating agencies for the 12-month period ending June 30, 1972.

HUD internal audit

In a report dated January 31, 1972, HUD auditors stated that their review disclosed certain accounting and administrative deficiencies which, in their opinion, weakened the effectiveness of CDA's

system of internal control. In addition, the HUD audit showed that CDA should improve its monitoring and its evaluation activities of the agencies operating CDA projects. The report also pointed out that CDA contracting and procurement procedures required strengthening and/or correcting.

In response to the HUD audit findings, CDA provided HUD with certain documentation to support expenditures which were questioned and took certain additional measures to correct some of the weaknesses reported. However, in a letter dated April 19, 1973, from the HUD Assistant Regional Administrator for Community Development to Mayor Gibson, HUD said it was not completely satisfied that CDA had established a suitable system for monitoring the operating agencies and pointed out that travel costs of $13,276 which were questioned in the HUD report had not been substantiated.

At the completion of our field work, CDA and HUD were exploring ways for the CDA to satisfy HUD's project monitoring requirements.

Independent public accountant's audit

A certified public accounting firm--Lucas, Tucker and Company--reviewed projects operated by CDA and by independent agencies, such as the Newark Board of Education. In addition, the firm reviewed CDA's administration of the program.

In its report on CDA's administration that was released on April 19, 1973, the auditors stated that CDA's accounting system and internal controls for the period July 1, 1971 through June 30, 1972, were inadequate to safeguard the assets, check the accuracy and reliability of accounting data, promote operational efficiency, and encourage adherence to prescribed management policies. CDA generally agreed with the findings and had taken or planned to take certain corrective actions.

The auditors also questioned $129,410 in CDA program administration costs and costs of certain CDA project activities. This amount included costs of $29,781 that were improperly recorded or misclassified and $95,770 (including $58,000 for salaries) of expenditures that were not fully documented.

With regard to the review of the operating agencies, the auditors also questioned additional expenditures of $37,977. Of this amount, $28,938 was questioned because required documentation was not available and $9,039 because budget status reports had not been submitted by the agencies to CDA.

REVIEW OF PROGRAM ADMINISTRATION
AND PROJECT COSTS

CDA, during the period covered by our review, spent $1.7 million in Model Cities funds for program administration. This included $357,000 for the Office of the Director; $312,000 for the Office of Management; and $333,000 for the Office of Planning. In analyzing the activities of these CDA organizational components, we reviewed costs incurred for travel and transportation; contractual services, including rent expenses; salaries and pension plan costs.

Travel expenses ($118,000)

The costs recorded in this category included travel expenses incurred by CDA employees and Model Neighborhood Council members for local and out-of-town travel and to attend various training sessions. Members of the Neighborhood Council visited Model Cities' projects at various locations in the United States and Puerto Rico. The training sessions at such locations, according to CDA records, were aimed at orientating the CDA staff and the Council employees on various aspects of citizen participation in the Model Cities Program.

While documentation to support these expenditures was not readily available in all cases, we were generally able to obtain the necessary records and supporting data to satisfy ourselves that such expenses had been authorized and were related to carrying out the objectives of the Model Cities Program.

Contractual services ($2,211,000)

The CDA spent about $2,211,000 of second action year funds for costs classified as contractual services. This amount included $1,687,000 paid to non-profit independent operating agencies (primarily City of Newark agencies); $235,000 for rent; $41,000 for accounting and auditing fees; $26,000 for communication services; and $40,000 for employees' tuition and training.

CDA, acting upon advice of the City Corporation Counsel, awarded without competitive bidding, and without City Council approval, contracts in amount in excess of $2,500. However, on August 1, 1972, the City Corporation Counsel ruled that Federal funds were subject to the New Jersey Public Contract law and therefore CDA should submit future contracts for competitive bidding and for City Council approval. HUD agreed to accept costs incurred under these contracts but advised the Mayor of Newark that future

contracts must be executed in accordance with the city's contracting procedures in order for the costs to be eligible under the Model Cities Program.

Rent expense ($235,000)

The rent expense included $136,000, primarily for CDA office space at three downtown locations and $98,000 for a Community Organization project operated at three locations in the model neighborhood. At one of the locations a community center was occupied under a lease-purchase agreement. We found that the recorded rent expense was overstated by $38,745. This error was subsequently corrected by CDA.

Payroll costs ($1,903,000)

About $1.9 million in payroll costs were incurred by CDA during the second action year. We reviewed $917,000 of this amount. We examined the supporting time and leave records; hiring approvals and authorizations; and salary authorizations. We compared the salaries paid to the Model City employees with salaries paid to other City of Newark employees and with the level of salaries paid to CDA employees of Model Cities Programs in other cities.

Except for the matters discussed on pages 4 and 5, we found that the payroll costs were properly charged to the Model Cities Program. Also, our review showed that the salaries paid CDA employees were in line with the salaries paid City of Newark employees who held similar positions and with salaries paid to CDA employees in other cities.

Office of Planning salaries ($492,000)

During the 15-month period ended September 30, 1972, about $492,000 in Model Cities funds were spent for the salaries of staff members performing planning functions.

Our review showed that three staff members, whose salaries were paid from Model Cities funds, worked on city-wide projects that did not appear to specifically deal with model neighborhood problems. A fourth staff member, whose salary was also paid from Model Cities funds, worked directly for the business administrator of the City of Newark. His day-to-day responsibilities and functions consisted

largely of attending business administrator's meetings and reporting to the city business administrator on these meetings. These meetings dealt with general administration activities of the city.

We believe that the activities of the Office of Planning discussed above were applicable to city-wide matters and not directly related to the Model Cities Program. Therefore, some costs may not be eligible under the Model Cities Program grant agreement between the City of Newark and HUD. The Demonstration Cities and Metropolitan Development Act provides that grant funds may not be used for the general administration of local government.

This matter was called to the attention of the HUD area office.

Pension plan costs ($165,000)

The CDA spent about $165,000 in Federal funds to provide a pension plan for its employees. HUD found that the pension plan, contrary to its requirements, was not comparable with the city's pension plan and notified CDA in October 1972 that Federal funds would no longer be authorized for such expenses. The plan was, therefore, discontinued on October 1, 1972.

HUD auditors reported that under the CDA plan two-thirds of the costs of the plan would be paid by the employer (CDA) and that upon withdrawal from the plan before retirement, CDA employees had a vested right in the employer's contribution. Under the city plan, however, the employer (the city) paid one-half the premium cost and the employee, prior to retirement, had a vested right only in his contribution.

During our review of the CDA pension fund, we noted that CDA contributions and amounts withheld from employees' salaries may not have been deposited with the pension fund insurance company. Also, refunds received by some CDA employees, after they had terminated their participation in the pension plan, did not agree with amounts that the employees apparently were entitled to receive. This matter has not been resolved and is currently under review.

REVIEW OF PROGRAM ACCOMPLISHMENTS

During the second action year, CDA spent about $3 million in HUD Model Cities funds for 38 individual projects. Sixteen of these projects were administered by CDA and 22 projects were administered for the CDA by independent operating agencies, such as the Newark

Board of Education. We selected for review one project that was established by CDA to enhance community involvement and participation in the Model Cities Program and another project that was administered by the Newark Board of Education, at several locations, to help raise the reading and mathematics abilities of elementary school students.

Community organization project ($624,000)

During the 15-month period ended September 30, 1972, the cost of operating this project was $624,000, including $412,000 in salary costs for about 54 employees.

The community organization maintains a central office, staffed with a director and five assistants, and three district offices each employing about 16 persons.

According to evaluation reports prepared by CDA, the project has been successful in organizing the community into "block groups", and has held meetings at which local problems are discussed and community needs are expressed. Through the district offices, the project serves as a referral agency for community residents for health, welfare, educational, employment and other related services. In addition, a community structure for the election of the Model Neighborhood Council was created. This Council--consisting of about 50 members--was created to provide information to CDA for program and project planning purposes. In view of the broad based objectives of the project, it is difficult to effectively evaluate specific project accomplishments; however, community organization project records and CDA evaluation reports, indicated that this project served to involve community residents in the planning and operations of the Newark Model Cities Program.

Model schools educational projects ($528,000)

CDA paid the Newark Board of Education $528,000 to operate seven individual Model Schools projects during the period covered by our review. We reviewed one of these projects--the Martin Luther King, Jr. School project--and found that CDA had not fully measured or evaluated the accomplishments of this project.

This project, for which CDA paid $137,000, was established primarily to raise the reading and mathematics abilities of students in one elementary school. Students enrolled in this project had

not been tested before or shortly after the inception of the project; consequently, there did not exist reliable criterion to determine whether the students' reading or mathematics abilities had been improved through their participation in this project.