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Report to Sen. Lawton Chiles, Chairman, Senate Committee on Governmental Affairs: Federal Spending Practices and Open Government Subcommittee; Rep. Lou Frey, Jr.; Rep. Richard Kelly; Rep. William V. Chappell, Jr.; by Elmer B. Staats, Comptroller General.

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Congressional Relevance: Senate Committee on Governmental Affairs: Federal Spending Practices and Open Government Subcommittee. Rep. Lou Frey, Jr.; Rep. Richard Kelly; Rep. William V. Chappell, Jr.
Authority: Economic Opportunity Act of 1964, as amended (42 U.S.C. 2982; 42 U.S.C. 2763). Public Works and Economic Development Act of 1965 (42 U.S.C. 3246). Health Maintenance Organization Act of 1973 (42 U.S.C. 300e-2 (Supp. IV)).

The Seminole Employment Economic Development Corporation in Seminole County, Florida, is designed to help low-income communities cope with problems such as chronic unemployment and community deterioration by providing financial and technical assistance to business and social ventures serving them. Findings/Conclusions: Through June 1976, the corporation received Federal grants of about $4.3 million: $3.2 million from the Community Services Administration (CSA), $1.1 million from the Department of Commerce, and $50,000 from the Department of Health, Education, and Welfare (HEW). Over $1.50 million from the CSA was invested in or loaned to a credit union, a property-holding company, and eight businesses. The corporation and its businesses were providing employment for 67 people, temporary employment for 103 people, and seasonal employment for up to 160 people. Three of the eight businesses were dissolved; none made a profit over an extended period; and only three appeared to be progressing toward profitability. The corporation's inability to develop profitable businesses included the need for improvements in preparing feasibility studies, estimating business cash requirements, selecting managers, and establishing management information systems. Some corrective actions have been taken. (Author/HTW)

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REPORT OF THE COMPTROLLER GENERAL OF THE UNITED STATES

Management Of The Seminole Employment Economic Development Corporation

During its 5-year existence, the corporation has been organizationally stable, but it has been unable to develop profitable businesses.

Recent improvements in the management of businesses could improve their prospects for success.

HRD-77-103

SEPTEMBER 2, 1977

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

B-163922

The Honorable Lawton Chiles, Chairman
Subcommittee on Federal Spending
Practices and Open Government
Committee on Governmental Affairs
United States Senate

The Honorable Lou Frey, Jr.
House of Representatives

The Honorable Richard Kelly
House of Representatives

The Honorable William V. Chappell, Jr.
House of Representatives

As requested by you, this report discusses the results of our review of the Seminole Employment Economic Development Corporation's use of Federal funds in promoting economic development opportunities and creating jobs for disadvantaged and unemployed individuals in Seminole County, Florida. It also discusses our findings regarding several questions raised by the Orlando news media about the effectiveness of the corporation's efforts.

As arranged with your offices, we are sending a copy of the report to the Subcommittee on Manpower and Housing, House Committee on Government Operations, and will provide copies to others on request.

Comptroller General
of the United States

REPORT OF THE
COMPTROLLER GENERAL
OF THE UNITED STATES

MANAGEMENT OF THE SEMINOLE
EMPLOYMENT ECONOMIC
DEVELOPMENT CORPORATION
Community Services Administration

D I G E S T

The Seminole Employment Economic Development Corporation in Seminole County, Florida, is designed to help low-income communities cope with problems such as chronic unemployment and community deterioration by providing financial and technical assistance to business and social ventures serving them.

Are the corporation's activities and approaches consistent with established Federal objectives and priorities? The corporation has met the organizational requirements of the Community Services Administration, which funds the corporation. However, it has had serious management weaknesses that prevented it from choosing and developing profitable businesses.

ACTIVITIES AND ACHIEVEMENTS

Through June 1976, the corporation received Federal grants of about \$4.3 million--\$3.2 million from the Community Services Administration; \$1.1 million from the Department of Commerce; and \$50,000 from the Department of Health, Education, and Welfare. It spent about \$3.2 million.

Over \$1.5 million from the Community Services Administration was invested in or loaned to a credit union, a property-holding company and eight for-profit businesses. Private stockholders invested about \$248,000 in the businesses, and local lending institutions loaned them about \$565,000. As of June 30, 1976, the businesses had property valued at about \$656,000.

The corporation and its businesses were providing full-and part-time employment for

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67 people, temporary employment for 103 people, and seasonal employment for up to 160 people.

Three of the eight businesses had been dissolved at a loss of about $407,000 to the corporation. None of the eight businesses made a profit over an extended period, and only three appeared to be progressing toward profitability. Recent improvements in the management of the remaining businesses, along with additional funding, may give them a better chance for success. (See pp. 9 through 12.)

The grant of $1.1 million from the Department of Commerce included

--$262,000 for providing management and technical assistance to socially disadvantaged businessmen and

--$829,000 for funding 103 emergency jobs for about 1 year beginning in February 1976.

The grant of $50,000 from the Department of Health, Education, and Welfare was for studying the feasibility of having a health maintenance organization for Seminole County. The study showed that such an organization was needed but was only marginally feasible because of inadequate support from local physicians.

DEVELOPMENT OF BUSINESSES

The corporation's inability to develop profitable businesses cannot be attributed to a single cause. All of its businesses had common problems, which indicates the need for improved ways of

--preparing feasibility studies,

--estimating business cash requirements,

--selecting managers, and

--identifying and establishing needed management information systems.

Weaknesses in these areas contributed to losses, slowed development, and prevented corporation officials from being aware of problems.

The feasibility studies for the eight businesses suffered from errors, omissions and overoptimism. Complete, accurate feasibility studies for two terminated businesses and two active businesses might have prevented or minimized losses.

The corporation, in many cases, underfunded businesses by underestimating the cost of facilities and equipment and by overestimating sales and profits. As a result, businesses did not have cash available when it was needed. The lack of cash disrupted operations, curtailed development, and contributed to inefficiencies and losses. Excessive optimism also obscured the real investment required for business development and precluded realistic evaluations of feasibility.

Inadequate management information systems have been a persistent problem. Weaknesses in the systems have prevented identification and correction of inefficient operations, timely identification of large operating losses, and computation of reliable profit and loss amounts. Raw materials were purchased without knowing whether the prices paid would allow for adequate profit margins.

Of the eight ventures, five released one or more managers. One business had four managers, three of whom were unqualified. This business failed.

GAO found little evidence that the corporation investigated and verified claimed qualifications of prospective managers.

Apparently, managers were accepted on their word.

CORRECTIVE ACTIONS

The corporation has taken, or is taking, the following actions to improve the management of its businesses and enhance its chances for developing profitable businesses.

It:

--Placed monitoring of businesses under an Executive Advisory Committee consisting of the corporation's Controller, Director of Operations and Monitoring, and Director of Business Development and Marketing.

--Started developing management information systems at two businesses and is planning a system at another business.

--Studied the operations of two businesses in-depth to identify and correct inefficiencies. Both were altered greatly.

COMMUNITY SERVICES ADMINISTRATION COMMENTS

The Community Services Administration said that the report identified problems with corporation and business management. It agreed with our appraisal of the corporation.

CHAPTER 1

INTRODUCTION

As requested by Senator Lawton Chiles, Chairman, Subcommittee on Federal Spending Practices and Open Government, Senate Committee on Governmental Affairs, and Representatives Lou Frey, Jr., Richard Kelly, and William Chappell, Jr., we reviewed the management of the Seminole Employment Economic Development Corporation (SEEDCO) from June 1970 through August 1976. The requests were prompted primarily by community concern over newspaper reports that SEEDCO was not being managed effectively and that Federal funds were not being used as intended by the Congress.

SEEDCO is a community development corporation located in Sanford, Seminole County, Florida. It was formed in June 1970 through the combined efforts of seven local anti-poverty agencies to promote economic development and create jobs for disadvantaged and unemployed people in Seminole County.

Since September 1972 SEEDCO has been funded primarily through grants from the Community Services Administration (CSA) or its predecessor, the Office of Economic Opportunity, under part A, Special Impact Programs, title VII of the Economic Opportunity Act of 1964, as amended (42 U.S.C. 2982). The act authorizes grants for programs

- --which try to solve the critical problems of areas having substantial numbers of low-income people;
- --which are of sufficient size, scope, and duration to have an appreciable impact in arresting tendencies toward dependency, chronic unemployment, and community deterioration;
- --which hold forth the prospect of continuing to have such impact after Federal financial assistance is terminated; and
- --which provide financial and other assistance to start, expand, or locate enterprises in or near the area to be served so as to provide employment and ownership opportunities for its residents.

Previously, such grants were authorized under part D, title I of the the act, as amended (42 U.S.C. 2763).

Through June 1976 SEEDCO received Federal grants totaling $4.3 million--$3.16 million from CSA or the Office of Economic Opportunity; $1.09 million from the Department of Commerce; and $50,000 from the Department of Health, Education, and Welfare--and had spent $3.24 million. Chapter 2 contains additional information on funding.

SCOPE OF REVIEW

We reviewed all records maintained by CSA concerning SEEDCO activities and interviewed CSA officials responsible for both funding and monitoring the activities of SEEDCO and its business ventures. We also reviewed management and financial records of SEEDCO and its ventures from SEEDCO's inception through August 1976, and interviewed their key officials. The records included minutes of board of directors' meetings, grant documents, feasibility studies and plans, expenditure vouchers and supporting documents, financial statements, audit and evaluation reports, and incoming and outgoing correspondence.

CHAPTER 2

SEEDCO ACTIVITIES AND ACHIEVEMENTS

The purpose of the Special Impact Program is to achieve an appreciable and lasting impact in arresting tendencies toward dependency, chronic unemployment, and community deterioration and to have such impact continue after Federal financial assistance ends. SEEDCO's progress must be viewed in terms of the policies and priorities which CSA has set for community development corporations. These policies and priorities are broadly stated and do not provide tangible methods for measuring either the extent or the reasonableness of a community development corporation's achievements and progress. It is clear that CSA views achieving an appreciable and lasting impact as a difficult and long-range goal and does not expect significant progress during the first few years.

SEEDCO has met CSA's criteria for a stable community development corporation as an initial indicator of progress toward achieving appreciable impact and its activities appear to be representative of actions necessary for accomplishing appreciable impact as measured by CSA's indicators.

Although SEEDCO has invested and loaned over $1.5 million in business ventures, no venture has become profitable. SEEDCO recently acted to improve the business management of its ventures. If these actions result in profitable ventures, SEEDCO will have taken a major step toward achieving the goals of the Special Impact Program.

In September 1975 an Orlando newspaper began a lengthy series of articles questioning SEEDCO's activities. It questioned the conformity of SEEDCO's programs and approaches with objectives and priorities established for community development corporations, the use of Federal funds purportedly to benefit SEEDCO's officers and employees, the propriety of investments in business ventures, and the qualifications and sincerity of management.

Our findings generally do not support the image of SEEDCO conveyed by the articles. We found no evidence of illegal activities or lack of dedication to SEEDCO's objectives and priorities. However, we identified serious management weaknesses in venture feasibility and development which had persisted from venture to venture. Our findings are discussed in greater depth in this chapter and in the following chapter on venture management.

CSA POLICIES AND PRIORITIES

CSA policies state that the ultimate goal of the Special Impact Program is to achieve parity between impact areas and areas surrounding them and that the legislative objective of "appreciable impact" should not be equated with this ultimate goal. That is, appreciable impact will not occur when parity is achieved--when the ultimate goal of eliminating poverty is attained--but when current economic, social, and institutional trends have been reversed.

CSA cites as the initial indicator of progress toward appreciable impact the establishment of a stable community development corporation, measured by the presence of an active and representative board, a competent and responsive staff, and broad-based support in and ties to the impact area. Increases in jobs and income, establishment of profitable ventures and property developments which attract private capital, increased numbers of skilled managers and workers, and reductions in unemployment and public assistance rolls in the impact area are considered to be indicators of appreciable impact. These are seen as giving the community development corporation and its effort visibility and creditability and are expected to result in increased private capital investment.

Community development corporations are expected (1) to make the services and resources available which the community needs for planning and coordinating activities related to the purposes of the program, providing equity and debt capital, generating employment, and increasing wages; (2) to develop profitable business ventures; and (3) to operate and sponsor social programs with financial assistance from Federal agencies, State and local governments, and private sources.

A STABLE COMMUNITY DEVELOPMENT CORPORATION

As previously indicated, CSA considers the establishment of a stable community development corporation to be an initial indicator of progress toward achieving appreciable impact. Such a corporation is identified by an active and representative board, a competent and responsive staff, and broad-based support in and ties to the impact area. SEEDCO has made progress toward this objective.

Active and representative board at SEEDCO

CSA requires a community development corporation to have a board of directors which includes representatives from the low-income, business, and financial communities. The majority of members must be selected from the low-income community. SEEDCO's bylaws provided for a 25-member board composed of

--the Director of Seminole County's community action agency;

--12 persons elected by members of Seminole County's 6 antipoverty agencies;

--6 members elected by the "Friends of SEEDCO," an advisory committee of community residents; and

--6 members elected by the board as at-large members from the civic, professional, and community leadership.

At the time of our review, SEEDCO's board of directors had 24 members and one vacancy. The board was structured in accordance with the bylaws and included both business and professional representatives. It generally met once each month with a quorum present and participating.

Staff at SEEDCO

Between 1970 and June 30, 1976, SEEDCO's full-time staff increased from 2 to 19. During that period 56 persons were hired and 37 employees were terminated. SEEDCO's current staff is comprised of the following positions.

President	1
Vice President	1
Administrative Assistant	1
Director, Resource Development	1
Director, Business Development	1
Community Resource Aide	1
Controller	1
Bookkeeper	3
Financial Business Analyst	1
Senior Venture Monitor	1
Junior Business Analyst	2
Secretary, Typist, Receptionist	5
	19

All but one member of SEEDCO's professional staff have college degrees. In addition, their experience and backgrounds are varied and appear to qualify them for the positions they occupy. The education and experience of several key members of the professional staff are summarized below.

--President: Education includes a Bachelor of Science degree in aviation education and administration and graduate studies in education, administration, sociology, psychology, tort law, and public schools law. Experience includes teaching; consultant services to various community groups and the Civil Rights Division, Department of the Treasury; management positions with two community action agencies; and a program management position with SEEDCO.

--Director, Business Development: Education includes undergraduate work in electrical engineering and business law. Experience includes supervisory and management positions with several large corporations, service as a consultant to several companies in marketing and financing, part owner of a designing and manufacturing company, and positions as an underwriting agent with two insurance companies.

--Financial Business Analyst: Education includes an undergraduate degree in biology and a master's degree in business administration. Experience includes a chemist position with a corporation, director of a personnel consulting service at a large college, and an investment analyst position with a large insurance company.

--Senior Venture Monitor: Education includes an undergraduate degree in product design. Experience includes positions as program manager, plant manager, plant superintendent, engineering supervisor, and vice president with a number of private businesses.

--Controller: .Education includes an undergraduate degree in accounting. Experience includes positions as finance officer and assistant controller in State government and in private industry.

The president of SEEDCO said that development of a capable staff has been a very difficult and lengthy process and that the turnover in personnel was part of the process. He said that SEEDCO's location, noncompetitive salaries, and uncertainty about its future contributed to the difficulties in recruiting high quality people. He said that, among other things, a downturn in the economy eased the problem and made it possible to develop the current staff, which he believes will hasten SEEDCO's success.

Broad-based support in Seminole County

SEEDCO's support in and ties to Seminole County are evidenced by its origin as well as by the current board of directors and private contributors.

SEEDCO was formed in June 1970 through the combined efforts of the following community and neighborhood anti-poverty agencies:

Seminole Community Action, Inc.
Oviedo Citizens in Action, Inc.
South Seminole Committee for Progress, Inc.
Midway Economic Action Team, Inc.
Bookertown Community Improvement Association, Inc.
Westside Community Improvement Association, Inc.
Georgetown Community Improvement Association, Inc.

These organizations represent and serve low-income communities throughout Seminole County. They have a combined total of over 1,150 members. Of SEEDCO's 24 board members, 14 were also officers or members of these organizations.

SEEDCO has a program where individuals above the low-income guidelines can become members of the "Friends of SEEDCO." It had about 180 "friends" during 1976, 5 of whom were members of the board of directors.

SEEDCO ACTIVITIES AND ACHIEVEMENTS

As indicated, CSA has not developed criteria for evaluating a community development corporation's progress; but it has determined that appreciable impact is indicated in the area by (1) a net inflow rather than outflow of jobs and income, (2) the establishment of profitable ventures and property development which will attract private capital, (3) an increase in the number of skilled managers and workers, and (4) reductions in unemployment and public assistance rolls. SEEDCO's activities appear to be consistent with the course of action necessary to achieve an appreciable impact.

Basic operations

Through June 30, 1976, SEEDCO received $3.2 million in grants from CSA or its predecessor, the Office of Economic Opportunity, for basic operations. Over $2.8 million had been spent for the following purposes.

Description	Expenditures	Percentages
Personnel	$ 833,000	29.6
Consultants and contractual services	193,000	6.8
Travel	63,000	2.2
Space costs and rental	41,000	1.5
Consumable supplies and other costs	127,000	4.5
Rental, lease, or purchase of equipment	30,000	1.1
Investments in and loans to ventures	1,531,000	54.3
	$2,818,000	100.0

The remaining $350,000 was not spent; it was invested in certificates of deposit in a local bank and a local savings and loan association.

Grants secured from other Federal agencies

SEEDCO secured grants from other Federal agencies totaling $1.14 million to improve the employment prospects of the residents of the impact area and the delivery of health services to them.

Department of Commerce

Grants totaling $262,000 were obtained from the Office of Minority Business Enterprise under provisions of title III of the Public Works and Economic Development Act of 1965 (42 U.S.C. 3151). These funds are being used to operate a Local Business Development Organization and a Construction Contractor Assistance Center for the purpose of providing management and technical assistance to socially disadvantaged businessmen.

On June 30, 1976, the Local Business Development Organization had three employees, but the Construction Contractor Assistance Center had not been staffed. SEEDCO plans for these offices to have a combined total of eight employees.

The Local Business Development Organization provides a number of specific services to socially disadvantaged businessmen, including accounting systems development and management and market analyses.

A grant of $829,000 was obtained from the Economic Development Administration under title X of the Public Works and Economic Development Act of 1965 (42 U.S.C. 3246) to fund 103 emergency jobs for about 1 year beginning in February 1976. People hired for these jobs had been unemployed, and many were on public assistance. They have been assigned to SEEDCO, to ventures being developed by SEEDCO, and to projects of the local community action agency--such as a community cannery and a home winterization and energy conservation project. SEEDCO's goal is to provide permanent employment for 61 percent of these people.

Department of Health, Education, and Welfare

A grant of $50,000 was secured from the Department of Health, Education, and Welfare under provisions of the Health Maintenance Organization Act of 1973 (42 U.S.C. 300e-2) (Supp. IV, 1974) to study the feasibility of a health maintenance organization for Seminole County. The study showed that such an organization was needed but only marginally feasible because of inadequate support from local physicians.

Development of ventures

SEEDCO had invested (including loans) over $1.5 million of CSA grant funds in eight business ventures, one credit union, and one property-holding company. Private stockholders had invested cash, property, and equipment valued by SEEDCO at about $248,000 in four of the ventures. In addition, the business ventures had borrowed over $565,000 from local lending institutions. The nature and status of SEEDCO's investments as of June 1976 was as follows:

Description	Investments	Loans	Percent of equity
Active business ventures:			
Ornamental plant nursery	$ 175,000	$ 52,500	100
Fruit harvesting and packing	100,000	150,000	60
Bakery products	51,000	-	60
Winch manufacturing	200,000	-	44
Manufacturing and marketing material handling and packaging equipment	50,000	-	51
Inactive or discontinued ventures:			
Landscaping, lawn maintenance, and plant nursery	217,600	-	100
Citrus juice processing plant	75,000	55,000	100
Motel development	215,500	-	100
Credit union	a/ 15,000	-	-
Property holding	139,000	-	100
Total	$1,274,100	$257,500	

a/Represents grant to credit union used exclusively for administrative salaries and not considered as equity by SEEDCO.

Active business ventures

SEEDCO had five business ventures under development at June 30, 1976. These ventures had been under development for periods ranging from 10 months to 3 years and had 33 full-time employees, 13 part-time employees, 32 seasonal employees (the number of seasonal employees can range as high as 160), and 58 employees hired under the title X grant from the Department of Commerce. SEEDCO had made capital investments of $576,000 in these ventures. It had also loaned the ventures $202,500, had guaranteed loans of $75,000 from private sources, and had requested additional investment authority from CSA.

None of the active business ventures had made a profit over an extended period and all had deficits as of June 30, 1976. Some of the ventures appeared to be making progress toward becoming profitable, but most had experienced or were experiencing management problems. Recently, SEEDCO took strong corrective measures which, along with additional funding, may enhance the prospects for their success. (See ch. 3 for detailed information on venture development.)

Inactive and discontinued business ventures

The landscaping, lawn maintenance, plant nursery company, SEEDCO's first venture, was terminated for lack of economic feasibility after about 3 years of operation. Motel development efforts were discontinued for lack of economic feasibility by CSA during the planning phase, but after purchase of land and a franchise. The citrus juice processing plant was terminated for lack of economic feasibility after the purchase of land and equipment and construction of facilities. SEEDCO's net loss on these ventures will be about $407,000. Land and buildings purchased by these ventures are being retained for future use.

Experiences with its first venture (the plant nursery) significantly changed SEEDCO's philosophy about venture development. When the venture was started, SEEDCO envisioned ventures that would employ a large number of people and that would be staffed at all levels by the area's low-income residents who had been appropriately trained. From the beginning, this venture had problems, largely attributable to management weaknesses, the need to train virtually the entire work force, and higher-than-average wages to accommodate a permanent work force instead of casual labor as used by competitors. As a result of this experience, SEEDCO de-emphasized training as a basic role of venture development and decided to seek expert venture managers and to emphasize profit rather than employment in developing future ventures. These concepts are consistent with CSA's policies and priorities.

It is CSA's policy for community development corporations to initially emphasize the development of profitable ventures rather than the creation of jobs for impact area residents. The rationale for this policy is that employment goals will be better served by a successful business image which solidifies the community development corporations' institutional standing and attracts outside capital for new and expanded ventures. Also, according to CSA, community development corporations' efforts to train venture managers rather than to employ expert managers has been a major cause of venture losses.

Property-holding venture

SEEDCO organized a property-holding venture in October 1974 to acquire and hold real property which would then be leased to other SEEDCO ventures. Land and buildings from inactive ventures in which SEEDCO had invested about $139,000 (valued at about $198,000) were being held by the property-holding venture as of June 30, 1976. Several other properties valued at $453,000 were being retained by or held in trust for other operating ventures.

Credit union

SEEDCO formed a credit union in August 1974 to promote thrift among members, to provide members with an opportunity to accumulate savings, and to provide members with a source of credit. The credit union has one full-time and one part-time employee hired under a grant from SEEDCO and two temporary employees hired under the title X grant from the Department of Commerce.

Through July 1976 the credit union had received deposits of $42,000 and had made 268 loans totaling $87,000. Credit union records show a profit of $1,100, exclusive of personnel costs, for the first 7 months of calendar year 1976. Obviously, there has to be a significant increase in deposits, loans, and profits before the credit union can become self-sufficient.

Summary of employment generated

At June 30, 1976, SEEDCO and its ventures were providing full-time employment for 53 people, part-time employment for 14, and seasonal employment for up to 160. In addition, SEEDCO had secured grants from other Federal agencies (1) for providing employment to 103 people for 1 year and (2) for operating offices, which at the time had 3 employees, to provide management and technical assistance to minority businessmen.

NEWSPAPER QUESTIONS ON SEEDCO OPERATIONS

An Orlando newspaper raised several questions concerning the necessity of certain SEEDCO loans and expenditures incurred for consultant services, office space and furnishings, training, and salaries. A question was also raised about a loan to a local ambulance service.

Consultant services

For the 12-month period ending February 29, 1976, SEEDCO spent $54,000 for consultant and professional services. These services included assistance and advice in (1) determining venture feasibility, (2) performing public relations for SEEDCO, and (3) preparing grant applications. We examined supporting documentation for $30,000 of these expenditures and found no questionable transactions.

Office space and furnishing

SEEDCO occupies about 5,600 square feet of space in a World War II temporary building which once served as headquarters for the Sanford Naval Air Station. The space is leased from the Sanford Airport Authority for $3.21 a square foot including repairs, maintenance, utilities, and janitorial services. SEEDCO's space and furniture are adequate for its operations, but not ostentatious. The building has paneling, carpeting, and central air conditioning, and the furniture is within the medium price range. An official of the Airport Authority said that comparable space in the area would cost from $5 to $6 a square foot.

Training expenses

One newspaper article asked why $175 was paid to California State University for "employee development." This payment represented the registration fee for a SEEDCO employee's attendance at a conference on venture capital for 5 days in December 1972.

Salary expenses

Another newspaper article asked why a check was made out to H.L. Orr, Inc., and then voided. The article also asked who or what is H.L. Orr, Inc. H.L. Orr is the president of SEEDCO. In September 1972 SEEDCO's bookkeeper inadvertently made Mr. Orr's salary check payable to "H.L. Orr, Inc." The erroneous check was immediately voided and a corrected check issued on the same date. We examined the erroneous check and verified that it was voided and not paid.

Ambulance service

One of the newspaper articles asked why SEEDCO loaned $4,000 to an ambulance service.

We found that on August 17, 1972, SEEDCO agreed to loan $5,000 to an ambulance service to help the owner secure a loan of $15,000 from the Small Business Administration. As a condition of its loan, SEEDCO was to assume management control over the ambulance service, including proceeds from both its loan and the loan from the Small Business Administration.

SEEDCO never intended for its loan to be used by the ambulance service. Instead, it intended for the loan to be returned to SEEDCO after it had served its purpose in securing the Small Business Administration loan. However, an official of the Small Business Administration told SEEDCO that the conditions of its loan did not meet the Small Business Administration's requirements. In addition, SEEDCO learned that the ambulance service and its owner were in a worse financial position than previously believed. As a result, SEEDCO withdrew its support of the ambulance service. The proceeds of SEEDCO's loan were redeposited in its bank account on November 9, 1972, and checks received from the Small Business Administration were returned on November 28, 1972.

CHAPTER 3

SEEDCO VENTURES

As of June 30, 1976, SEEDCO had invested and loaned $1,377,100 to eight business ventures (excluding a property-holding company and a credit union), five of which were active at the time of our review. Although none of the five active ventures had become profitable, three were making progress toward this end. Continuation of the other two appeared questionable without additional funds from SEEDCO.

SEEDCO's inability to develop profitable ventures cannot be attributed to a specific cause or causes. All of its business ventures have experienced some common problems, which indicates that the corporation needs to improve its methods for preparing feasibility studies, estimating venture cash requirements, selecting venture managers, and identifying needed management information systems. Weaknesses in these areas have contributed to venture losses, slowed venture development, and prevented SEEDCO officials from being aware of venture problems. Recently, however, it acted to improve the management of its ventures. The actions taken are discussed in chapter 4.

An Orlando newspaper raised a number of questions concerning the propriety of SEEDCO's investments in several ventures. In most cases these questions were raised on the basis of partial information. We developed additional information necessary to resolve the questions.

FEASIBILITY STUDIES

The feasibility studies for the eight ventures contained errors, omissions, generalizations, overstatements, or overoptimism which contributed to development problems. Complete, accurate feasibility studies for the two terminated ventures and for two of the active ventures might have prevented, or at least minimized, SEEDCO's losses. Examples of these problems and information relative to the newspaper's questions are summarized below.

Landscaping, lawn maintenance, plant nursery

SEEDCO's first venture, a landscaping, lawn maintenance, plant nursery business, was terminated for lack of economic feasibility after about 3 years of operation and losses of about $218,000. SEEDCO officials said that because of a slowdown in the area's economy, the venture was unable to obtain landscaping and lawn maintenance work. From its beginning, the venture experienced problems involving low quality products, untimely performance, and high costs. One of the cornerstones of this venture was SEEDCO's plan to hire and train all personnel--including management--from among the areas's poor; but the feasibility study did not consider the effect this might have on the quality, timeliness, and cost of the venture's product. Further, the feasibility study contained no specific information about the (1) nature and amount of operating costs, (2) availability of customers, (3) extent of competition, or (4) the business volume necessary to make a profit.

Citrus juice processing plant

A venture to produce and market fresh citrus fruit juice was terminated in May 1976 before beginning operations because its projected production costs exceeded the retail price at which competitors were selling their products.

The feasibility study for the plant was prepared primarily by SEEDCO staff members who had no experience in producing and marketing citrus juices. Some assistance was provided by the venture manager and a consultant, both of whom reportedly, had some experience. The study contained no provision for inflation and significantly overstated proceeds from the sale of waste products. More importantly, however, the feasibility study discounted the possibility and effects of competition from large companies and projected production 12 months a year from a seasonal raw material.

SEEDCO officials knew that one nationwide company was marketing fresh juice in the northeastern United States and said that an official of the company told them in the early part of 1974 that the company was not planning to enter the central Florida market. SEEDCO officials also concluded that another nationwide company would not enter the fresh juice business because of the required investment.

On this basis, SEEDCO officials discounted future competition from the two major companies. The officials further concluded that if unforeseen competition did develop, their venture could compete. They thought its small size would permit production and marketing flexibility not available to large companies, and that its product would be better because it would use fruit from small orchards which produce higher quality fruit. Within about 1 year, however, both of the large companies whose competition SEEDCO had discounted were selling fresh fruit juices in central Florida at prices lower than the projected production costs of the venture's product.

The feasibility study for the plant provided for the production of fresh orange juice 12 months a year even though harvesting oranges is seasonal, covering about 9 months a year. The 12-month operation was to be accomplished by maintaining a sufficient supply of oranges in cold storage. However, neither the feasibility study nor the facility actually constructed provided for cold storage of unprocessed fruit. The inability to sustain production on a year-round basis was a major factor in the decision to discontinue the plant.

Part of the plant's projected income was to be derived from the sale of citrus rind and pulp for $65 a ton. The income from this source was overstated by a factor of six because projections were based on wet weight instead of dry weight. This error overstated income for the first year of operations by $2,200, for the second year by $25,500, and for the third year by $46,300.

SEEDCO officials said that the cost of leasing cold storage space was included in projected product costs. They also said that the processing plant's competitors put their products on the market at discounted prices and that the prices have not changed even though production costs have increased significantly. However, the officials did not furnish documentation supporting these positions.

Newspaper questions juice processing equipment

A March 1976 newspaper article indicated that SEEDCO had invested a substantial sum in the "wrong equipment" for the juice processing plant which was approved by the Office of Economic Opportunity in May 1974.

Between May 1974 and June 1975, SEEDCO purchased land and juice processing equipment and started construction of a building and associated facilities. By June 1975, however, the venture was not operable, and SEEDCO did not have sufficient cash to complete it. In addition, SEEDCO had come to the conclusion that the venture, as planned and being developed, would be a marginal operation and that a capability for producing reconstituted juices from concentrates should be added. It decided to suspend further development, other than completing work-in-process, until additional funding could be secured and to dismiss the plant manager.

A new manager was hired in October 1975. He concluded, based on a detailed study, that the original equipment bought for $92,000 was adequate for the venture as it had been planned but that the venture as planned could not be profitable because production capacity was limited and the production of fresh juice would be restricted to about 9 months a year (because of the seasonal availability of fruit). By this time, venture development costs and competition from other producers of fresh fruit juice had significantly exceeded SEEDCO's original estimates. The new manager recommended that the plant be converted to produce reconstituted juices from concentrates to permit operations 12 months a year, and he estimated that to convert and begin operations would cost about $200,000. The conversion involved some new equipment and modifications to the building and associated facilities.

However, by April 1976 the new manager revised his conversion estimate and concluded that it would cost $450,000 to make the plant operational as a producer of reconstituted juices. This made profitability of the venture marginal at best. Also, a consultant to the citrus industry advised SEEDCO against continuing development efforts. Based on these recommendations, SEEDCO stopped development of the plant in May 1976.

In summary, the equipment originally purchased for the plant was not "the wrong equipment" for the venture as it was initially planned. The problem was that the venture could not be competitive in its market and could not be economically expanded or modified.

Although the venture has been terminated, there has not been a final liquidation and settlement of all assets and liabilities. As a result, final cost and loss figures are not available. Through December 1976 approximately $338,000 had been spent on the venture, including $155,000 for land and a building, $92,000 for machinery and equipment, and $91,000 for other assets and operating expenses. At that time, it appeared that SEEDCO would lose at least $139,000--its direct cash investment. The loss could be decreased by proceeds from the sale of the machinery and equipment but such proceeds are not expected to exceed a bank loan of $44,000 for which these items serve as collateral.

The land and building are being retained for future use. In commenting on our report, SEEDCO officials said that they were considering a joint venture with a food processing company which would use the land and building and possibly some of the machinery and equipment.

Winch manufacturer

In December 1974 SEEDCO invested $200,000 in a company which manufactured and retailed winches used by the fishing industry. SEEDCO owns 44 percent of the company's stock, but has voting control over 80 percent. The reasonableness of the investment was questioned by an Orlando newspaper.

A SEEDCO official said that the company was brought to their attention by the Institute for New Enterprise Development, a firm employed by CSA to help community development corporations locate prospective ventures, and that SEEDCO's investment was based primarily on a feasibility study jointly prepared by the company's officers and a representative of the Institute. The officials said that, because of the Institute's participation, SEEDCO's investigation was limited primarily to a small market survey, which generally included interviews with two or three of the company's customers and a couple of shipbuilders and users of winches. SEEDCO's proposal to CSA, a combination of the feasibility study and SEEDCO's survey, showed that the company was in trouble because of undercapitalization but that significant sales had been made, the product was excellent, and a good market existed. Subsequently, SEEDCO discovered that prior sales were negligible, that the winch was defective and unreliable, and that competition was stronger than anticipated.

A SEEDCO official said that during the first 20 months of operations (Dec. 1974 through July 1976) most of the corporation's efforts were directed at redesigning the winch and satisfying customers of the previous company. They told us that the winch has been redesigned successfully, that some sales have been made, and that inquiries from potential customers are increasing. As of August 1976, eight winches had been sold for a total of $49,000.

When our review was completed in August 1976, the company was without operating funds and had no paid employees. A company stockholder was being retained as a salesman but was not being paid. At that time, SEEDCO was studying the company's potential and was making plans to seek $40,000 from stockholders to pay existing debts and to pay for a sales program.

SEEDCO officials furnished information showing cumulative sales of about $69,000 through December 1976 including one for $16,200 for delivery of a winch in February 1977. The officials said that the company was unable to get additional funds from private stockholders and that SEEDCO had invested an additional $10,000 to start a sales program. They expressed cautious optimism about the company's chances but said that additional funding would be required.

Motel project

On March 8, 1973, SEEDCO exercised an option taken on November 27, 1972, and purchased, for $201,500, a 5.45-acre tract of land which it intended to use for a motel. In December 1973 SEEDCO learned, through an appraisal of this and other property, that the party it had bought the land from had purchased it for $105,000 on November 7, 1972--just 20 days before SEEDCO took its option on the property. The Orlando newspaper questioned how this could have happened.

The president of SEEDCO said that to avoid the cost of an appraisal--about $1,600--the option price was based on an appraisal SEEDCO obtained in September 1972 on a similar piece of land it was considering for the motel venture. Although this appraisal was made about 2 months before SEEDCO's option and dealt specifically with other property, it appeared to justify the price paid by SEEDCO for the tract it bought. A December 1973 appraisal of the purchased property also supported the purchase price. Based on these appraisals of comparable properties in the community, it appears that the party SEEDCO bought the land from may have acquired it for an unrealistically low price.

SEEDCO ultimately invested about $250,000 in the project for the land, the franchise, and other general expenses. The project had been approved by CSA and a commitment of mortgage funds had been obtained from a mortgage company. However, in November 1973 the mortgage company canceled its commitment because of the energy crisis. Subsequently, SEEDCO began to pursue the idea of a motel-office complex to be constructed on the purchased land and adjoining land, but CSA disapproved initial proposals on this project. Also, by 1974 substantial motel and hotel construction had been completed in the Orlando-Disney World area which is adjacent to SEEDCO's impact area.

In late 1974 SEEDCO was offered a 1-year-old Sheraton motel which had not proved profitable. An Orlando newspaper questioned SEEDCO's rationale for considering this option. SEEDCO was also interested in about 26 acres of adjoining land owned by the owners of the motel. SEEDCO perceived this as an ideal location for a motel-industrial park-community center complex. Negotiations were begun and an agreement was finally reached in which SEEDCO would buy the motel and a 51-percent interest in the adjoining land for joint venturing with the previous owners. An individual SEEDCO employed to operate the motel project when it became operational conducted a feasibility study with some outside consulting assistance. The study showed the project to be feasible, but SEEDCO's attempts to obtain private financing were unsuccessful.

CSA disapproved the project in January 1976, questioning the feasibility study on the following basis:

--Assumptions that the motel under SEEDCO direction could transcend the prevailing market and a relatively high break-even point.

--A $1.2 million acquisition price was too high in light of appraisals at $942,000.

--SEEDCO had materially underestimated initial development costs.

CASH FLOW PROBLEMS

SEEDCO has consistently underfunded ventures as a result of underestimating the cost of facilities and equipment and by overestimating sales and profits. As a result, ventures have experienced cash flow problems which disrupt operations, curtail development, and contribute to inefficiencies and losses. Moreover, excessive optimism obscures the real investment required for a venture and precludes a realistic evaluation of venture feasibility. Examples of cash flow problems are summarized below.

Ornamental plant nursery

SEEDCO started an ornamental plant nursery in August 1973 with an initial investment of $72,500. Within 16 months the venture was in debt and did not have sufficient cash for its payroll. In January 1975 CSA authorized an additional $25,000 investment, but not before purchases of nursery stock and productive operations had essentially stopped. Shortly thereafter, SEEDCO determined that a greatly expanded operation was necessary for making a profit. In January 1976 CSA approved $130,000 for the expansion. Almost 3 years after operations started, the venture was not making a profit, and SEEDCO's investment had increased from $72,500 to $227,500.

The initial investment in the nursery was based on a 7-month-old feasibility study showing that the venture should be profitable during the third year of operations. However, the feasibility study was based on a bedding plant operation (small outdoor plants, such as petunias, marigolds, and geraniums) whereas the venture actually started as an ornamental plant operation (foliage and indoor plants, such as philodendron and neanthabella palm). Bedding plants require shade and a growing period of 2 to 3 months. Ornamental plants require a growing period of 4 to 8 months and a greenhouse. A SEEDCO official said they changed to an ornamental plant operation on the advice of persons experienced in the nursery business, but they did not make a new feasibility study because they believed a new study was not needed.

Manufacturing and marketing of material handling and packaging equipment

In August 1975, SEEDCO started a manufacturing and marketing company for material handling and packaging equipment with $60,000 ($50,000 from SEEDCO and $10,000 from a private stockholder). Sales and profits of $398,000 and $117,00, respectively, were forecast for the first year of operations. The sales and profits did not materialize, and within 8 months the venture had a cash shortage. SEEDCO provided a loan guarantee for an additional $15,000 to prevent a serious liquidity problem. About 3 months later, SEEDCO notified CSA that another $65,000 was required immediately for continuation of the venture. It reported that a cash flow problem had resulted in lost sales of $35,000 and was preventing completion of current orders. In about a year, requirements for cash investments in this venture had increased from an initial estimate of $60,000 to an estimate of $140,000.

Sales and profits forecast for the venture were largely based on assumptions, speculations, and inaccuracies. Companies identified as customers were, in fact, only ideas of potential customers. Moreover, $70,000 in profits were based on plans to manufacture winches for the winch company, another of SEEDCO's ventures. At that time, mid-1975, SEEDCO knew that the winches were not marketable because of inherent design and safety problems. Even with an acceptable winch it knew the market would be marginal because of competition from established companies.

Fruit harvesting and packing

In April 1975 SEEDCO formed a fruit harvesting and packing business from an existing business with an initial investment of $200,000--$100,000 for a 60-percent ownership interest and a $100,000 loan for working capital. An Orlando newspaper questioned SEEDCO's investment in this venture.

At the time of SEEDCO's investment the company was essentially bankrupt because of significant operating losses during the previous 2 years. The feasibility study and proposal to CSA showed that SEEDCO invested in the company because it believed that (1) it could be made profitable, (2) it represented the largest minority-owned business in the area, and (3) it provided permanent or part-time employment to as many as 132 people. The original investment of $200,000 and a planned bank loan of $100,000 (which was never secured) represented SEEDCO's estimate of the cash needed to put the company on a profitable basis.

Five months after the initial investment, SEEDCO requested CSA approval to invest an additional $50,000. By that time, the venture was operating on advances from customers and on funds borrowed against accounts receivable. Eight months later, SEEDCO requested approval from CSA to invest an additional $25,000 to allow the venture to generate sufficient revenues to make a small profit. About the same time, it discovered that losses were much higher than expected; and in August 1976 it requested CSA to authorize an additional investment of $190,000 to save the venture. Therefore, within 16 months after this venture started, SEEDCO's investment had increased from $200,000 to $275,000 and an additional $190,000 was needed.

A consultant hired by SEEDCO said that cash flow problems were a major factor in losses incurred by this venture, primarily because they made it necessary to seek advances from customers at discounted prices. The company had lost about $102,000 as of May 31, 1976.

The remaining 40-percent interest in the fruit harvesting and packing business is held by the owners of the predecessor business. Their interest was based on an assessment of their equity in the predecessor business, but it appears that their equity may have been significantly overstated in order to support the 40-percent interest in the new business.

In January 1975, during negotiations for SEEDCO's investment in the business, SEEDCO and the owners of the existing business agreed that the owners would receive no less than a 40-percent interest and no more than a 49-percent interest in the new business for their equity in the existing business. At that time, the existing business had estimated assets of $228,080 and liabilities of $125,750, a net equity for the owners of $102,330. Incorporation with SEEDCO on the basis of these figures would have provided the owners with a 45-percent interest in the new business.

However, in April 1975 when the new business was formed, the financial condition of the existing business had deteriorated to the point that the owners' equity could support no more than a nominal interest in the new business. The president of SEEDCO said that, as a result, assets were transferred from the existing business at a value higher than agreed to in January in order to provide the owners with the negotiated minimum interest of 40 percent in the new business.

SEEDCO did not fully document the changes in the value of assets contributed by the owners of the existing company. However, available information indicates that the assets included fixed assets valued at $287,164. Just 3 months before incorporation, SEEDCO and the owners had agreed that the same assets were worth $203,967, or $83,197 less than the value assigned to them at the time of incorporation.

Most of the valuation increase was associated with land and buildings which were transferred to the corporation at $162,000 rather than the previously agreed upon amount of $92,500. SEEDCO justified this increase on the basis of a January 1975 appraisal estimating their value at $163,000. At the same time, however, SEEDCO had a second appraisal which valued the assets at $167,000 and a third appraisal which valued them at $75,400. In addition, it had a March 1975 letter written by the owners to a certified public accountant which showed that, based on the average of two appraisals, the assets were valued at $92,500 as security for a mortgage loan. SEEDCO did not attempt to reconcile the differences.

In addition to the potentially inflated, fixed-asset values, the owners were given credit for $30,275 in goodwill and $13,474 in receivables from a corporate officer.

Ten thousand dollars of the amount shown as receivable from a corporate officer represented cash the owners had borrowed from their business to retire personal debts. Although the transaction occurred a few days before SEEDCO's investment in the business, SEEDCO officials said that they approved it and they also approved a bank loan secured in the existing company's name from which the cash was taken. The remaining $3,474 shown as receivable from a corporate officer was established in order to justify the 40-percent interest in the new corporation.

The goodwill of $30,275 was also established to justify the 40-percent interest in the new corporation. At the same time, $13,697 of the existing business' accounts receivables was treated as bad debts and not accepted as an equity transfer to the new business. It was agreed that any future collections of the receivables would be treated as a reduction in the goodwill. After SEEDCO's investment, $6,675 of the receivables was collected, and goodwill was decreased accordingly.

On the basis of agreements reached with SEEDCO in January 1975, the owners of the existing business had no real equity in assets transferred to the new corporation because their liabilities exceeded their assets. Their equity in the new corporation was achieved by increasing the value of their assets by possibly as much as $127,000, excluding consideration of accounts receivables which were considered uncollectible at the time.

Funds which SEEDCO invested in the corporation were comingled with funds from other sources, such as sales. As a result, we could not identify the specific uses of Federal funds. However, SEEDCO's preinvestment investigation and an audit (made by a certified public accountant) of the existing company disclosed that the owners had intermingled business and personal finances and that a reasonable separation could not be achieved because of inadequate records. SEEDCO tried to separate the personal and business transactions but recognized that some of the assets and liabilities assumed by the new corporation could be nonbusiness. However, excluding the exception discussed below, our examinations of disbursements and supporting vouchers and canceled checks for the new corporation's first 16 months of operations (April 1975 through July 1976) did not disclose any transactions which we could identify with personal debts of the owners.

SEEDCO's president furnished us with information showing that corporate funds had been used to maintain and operate the private automobile of a corporate official's son. This situation had been reported to the president by the venture monitor. The president said that the corporation's records had been reviewed, and he furnished evidence showing that $92 h... een recovered from the corporate official.

ADEQUACY OF MANAGEMENT INFORMATION SYSTEMS

As summarized below, inadequate management information systems have been a persistent problem with SEEDCO ventures.

Landscaping, lawn maintenance, plant nursery

The landscaping, lawn maintenance, plant nursery, SEEDCO's first venture, did not have a system for estimating the cost of landscaping jobs or for evaluating the profit or loss status of jobs at various stages of completion. As a result, management did not know whether job bids had adequate profit margins and had no information for use in identifying and correcting inefficiencies during job performance. As indicated on page 15, SEEDCO lost about $218,000 on this venture.

Ornamental plant nursery

SEEDCO's second venture, a plant nursery, had been operating 3 years in August 1976 but did not have historical cost information or a cost accounting system that permitted accurate inventory valuation. As a result, reliable profit and loss computations were not possible. For example, for the fiscal year ended September 30, 1975, the venture valued its inventory at 80 percent of its retail value. This produced a negative cost of goods sold and a profit of $25,700 for the year. SEEDCO's certified public accountant would not accept this method of inventory valuation. Instead, using a unit cost figure which he developed, the accountant computed a loss of $8,700.

In July 1976 a SEEDCO official said that a certified public accountant with experience in the nursery business would be employed to install an appropriate cost accounting system.

Fruit harvesting and packing

A fruit harvesting and packing business, SEEDCO's sixth venture, was formed in April 1975 from an existing business. For the first several months of operations, it operated with a cash basis accounting system. That is, income was not recorded until it was received, and expenses were not recorded until they were paid. An audit by a certified public accountant revealed that during this time the company did not have an adequate system for determining what price it could profitably buy fruit on the tree. In November 1975 the venture hired an accountant who, in the process of reconstructing the accounting records, found major losses--about $90,000--of which SEEDCO and venture management were not aware. These losses have put the venture on the verge of failure.

MANAGERIAL QUALIFICATIONS

Five of SEEDCO's eight ventures have had one or more managers released. Three of four managers of one of the terminated ventures were found to be unqualified. The first manager of one of SEEDCO's active ventures was released because he grossly misrepresented the company's success and potential before, and at the time of, SEEDCO's investment. Managers of other ventures have been released because they did not have adequate production and marketing backgrounds.

A SEEDCO official attributed its failure to develop profitable ventures primarily to managerial problems. He said that SEEDCO could not attract top managers during its early years because of noncompetitive salaries, uncertainty about SEEDCO's future, and other factors. He said that although these problems still exist, conditions were improving.

Salaries and job security have probably limited SEEDCO's ability to attract good managers or to attract joint ventures with qualified individuals. We believe, however, that the problem also resulted because SEEDCO did not adequately investigate and verify the managerial qualifications of the individuals involved. We found little evidence of efforts by SEEDCO to investigate and verify the claimed qualifications of past and current venture managers. For the most part, it appears these individuals were accepted on the basis of their own representations.

SEEDCO officials agreed that available documentation does not show that the venture managers' claimed qualifications were investigated and verified. The officials said, however, that SEEDCO does independently investigate and verify the qualifications of venture managers. The officials conceded that their efforts have not always produced good managers; but they indicated that the results achieved represent the social and financial conditions under which SEEDCO has operated instead of a lack of diligence on their part.

CHAPTER 4

CSA AND SEEDCO ACTIONS

CSA

During 1976 CSA's Office of Economic Development, Office of the General Counsel, and Office of the Controller each completed reviews at SEEDCO. One was a regularly scheduled review of SEEDCO's overall operations. The other two reviews were prompted by, and dealt primarily with, previously discussed questions raised by an Orlando newspaper about SEEDCO's operations.

Generally, the findings and conclusions reported by CSA are consistent with the results of our review; therefore, their findings and conclusions are not repeated in detail in this report. One of the reports concluded that SEEDCO has functioned "fairly well" and has attempted to fill the function for which it was created but that it was too early to judge SEEDCO's accomplishments in employment because none of its ventures have been operating longer than the time frame suggested by CSA for the Special Impact Program. The reports also contained the following findings and conclusions.

--Overly optimistic feasibility studies and forecasts appear to have caused cash flow problems and undercapitalization of ventures. Significant amounts of additional capital will be required to alleviate cash flow problems.

--Venture managers do not have managerial autonomy under SEEDCO's monitoring procedures. Venture monitors are involved in daily operations to the point that decisionmaking and responsibility are shared.

Among other things, CSA's reports recommended that:

--Venture monitors not be permitted to become involved in the daily operations and decisionmaking process of ventures.

--Venture managers be provided the latitude and autonomy to seek and build working relationships with financial institutions of their choice.

--SEEDCO conduct in-depth reviews of all of its ventures.

--SEEDCO periodically evaluate venture monitoring procedures to assure that ventures are being provided with all necessary assistance.

In January 1977 CSA initiated efforts to improve its present oversight and employed a consultant to improve its system for monitoring and awarding grants and for deriving effective program performance measures against stated goals. As of July 1977 the consultant's work was still in progress. We will be assessing CSA's progress in improving the system as part of an overall review we are making of the Economic Development Program.

SEEDCO

At the conclusion of our fieldwork, we discussed information in this report with responsible SEEDCO officials and considered their views in preparing our report. At the time SEEDCO had taken, or was in the process of taking, the following actions to improve the business management of its ventures and to enhance its chances for successfully developing profitable ventures.

--An Executive Advisory Committee was created to monitor venture activities and to provide venture managers with recommendations for maintaining or accelerating venture progress. The Committee consists of SEEDCO's Controller, Director of Operations and Monitoring, and Director of Business Development and Marketing.

--Needed management information systems were started at the bakery and at the fruit harvesting and packing company, and a system was to be developed at the ornamental plant nursery.

--In-depth studies were made of the operations at two ventures to identify and correct inefficiencies. At the fruit harvesting and packing company packing operations were discontinued, harvesting operations were restricted to areas within 75 miles of the company, and detailed procedures were adopted for establishing the purchase price of on-the-tree fruit and contracting for it. At the bakery, inventory controls were installed, one work shift was eliminated, two excess employees were terminated, retail operations were modified, and purchase of efficiency-improving equipment was recommended.

An individual hired from private industry in late 1975 was instrumental in bringing about the above actions. He was hired originally to manage SEEDCO's venture for processing citrus fruit juices. His evaluation of the feasibility of that venture resulted in its termination. He also made the two venture studies mentioned above and is a member of the Executive Advisory Committee. Our review of his studies and recommendations indicates that he has both considerable business versatility and some of the business expertise SEEDCO needs to avoid the venture development problems discussed in chapter 3.

CSA COMMENTS

In commenting on our report on July 1, 1977, the CSA Director stated that we had identified a number of problems with SEEDCO and its ventures and that our report reflected a thorough and objective appraisal. The Director also stated that CSA had been aware of the principal problems with SEEDCO and its ventures through trip reports, monitoring reports, audits, and other available data and that corrective actions had been initiated to resolve these problems.

Community Services Administration WASHINGTON, D.C. 20506

JUL 0 1 1977

Mr. Gregory J. Ahart
Director
Human Resources Division
U.S. General Accounting Office
Washington, D. C. 20548

Dear Mr. Ahart:

We have reviewed the GAO draft report on the Seminole Employment Economic Development Corporation (SEEDCO) and we have no substantive disagreements or questions relative to its findings and conclusions. The findings did not bring to light anything of consequence that had not been included in trip reports, monitoring reports, audits or other information available in our files.

The report cited a number of problems with ventures, including questionable venture management, under capitalization of ventures, inadequate monitoring mechanisms, etc. However, it also noted that corrective actions had been initiated in these areas.

The report stated that although GAO found management weaknesses relating to venture and feasibility development, it "did not find evidence of illegal activities or any lack of dedication to SEEDCO's objectives and priorities". It was further indicated that SEEDCO now had a well-educated professional staff with experience and background which appeared to qualify them for the positions which they occupied.

It is our belief that the report reflects a thorough, objective appraisal of SEEDCO and the program.

Sincerely,

Graciela Olivarez

Graciela (Grace) Olivarez
Director

PRINCIPAL CSA OFFICIALS RESPONSIBLE FOR THE ADMINISTRATION OF ACTIVITIES DISCUSSED IN THIS REPORT

	Tenure of office From		To	
DIRECTOR:				
Graciela Olivarez	Apr.	1977	Present	
Robert Chase (acting)	Jan.	1977	Apr.	1977
Samuel Martinez	Apr.	1976	Jan.	1977
Bert A. Gallegos	Dec.	1974	Apr.	1976
Bert A. Gallegos (acting)	July	1974	Dec.	1974
Alvin J. Arnett	Sept.	1973	July	1974
Alvin J. Arnett (acting)	June	1973	Sept.	1973
Howard Phillips (acting)	Jan.	1973	June	1973
Phillip V. Sanchez	Sept.	1971	Jan.	1973
Frank C. Carlucci	Dec.	1970	Sept.	1971
Donald Rumsfeld	May	1969	Dec.	1970
ASSISTANT DIRECTOR FOR PROGRAM DEVELOPMENT (note a):				
Theodore M. Jones (acting)	Aug.	1972	Oct.	1972
Carol M. Khosrovi	July	1971	Aug.	1972
Alfred H. Taylor (acting)	June	1971	July	1971
Joseph P. Maldonado	Aug.	1970	June	1971
Marvin J. Feldman	Jan.	1970	Aug.	1970
ASSOCIATE DIRECTOR FOR ECONOMIC DEVELOPMENT:				
Gerrold K. Mukai	June	1977	Present	
Gerrold K. Mukai (acting)	May	1977	June	1977
Louis Ramirez	Oct.	1972	May	1977

a/In October 1972 this position was terminated and responsibility for the Special Impact Program was transferred to the Office of Economic Development.

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