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HUMAN RESOURCES  
DIVISION

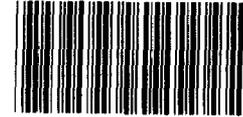
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B-211715

MAY 20, 1983

RELEASED

The Honorable Bill McCollum  
House of Representatives



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Dear Mr. McCollum:

Subject: Community Agencies Aiding the Poor in Sanford, Florida: Results of Federal Audits and Investigations (GAO/HRD-83-55)

Your December 22, 1982, letter requested that we provide you with a summary of audit and investigation findings related to the (1) Seminole Employment Economic Development Corporation (SEEDCO)--a community development corporation formed in June 1970 to create, through various business ventures, economic development and jobs for disadvantaged and unemployed residents of Sanford, Florida; (2) Sanford Housing Authority--a local public housing authority established in 1941 to provide low-income residents with decent shelter at affordable rents; and (3) Seminole Community Action, Inc.--a private nonstock organization formed in 1965 to administer a variety of nutrition, education, and social services programs for the poor in Seminole County, Florida.

On December 14, 1982, we briefed you on the results of our review of audit and investigation reports and discussions with Federal and State officials. Specifically:

- Federal and State officials have addressed and responded to the most significant audit and investigation findings and have taken or planned actions to resolve most problems.
- SEEDCO had been unable to develop profitable businesses due to recurring internal management problems. Federal agencies were trying to recover \$200,000 from SEEDCO ventures so as to restore a SEEDCO grant made for small business development and to recover \$125,000 of an unspent grant for support of a local credit union. Also, SEEDCO recently defaulted on a \$2.6 million Rural Development Loan, about \$600,000 of which was used to fund an unsuccessful amphibious aircraft business venture.

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--The Sanford Housing Authority's former director neglected the city's low-income housing program. Because of excessive home renovation costs, Sanford's \$1.2 million federally funded home rehabilitation program was terminated. Also, the Department of Housing and Urban Development (HUD) determined that the Housing Authority invested a separate \$100,000 home modernization grant for over 18 months in a certificate of deposit, while needed repairs went undone.

--Seminole Community Action, Inc., had weak internal financial controls, and Head Start Program officials substantiated certain racial discrimination charges made against the agency. Reported internal control weaknesses included inadequate time and attendance records, accounting records not timely prepared, and no accounting system for the non-Federal share of program costs.

--Federal and State officials informed us that continued funding for the three agencies will depend largely on the future availability of Federal funds.

The enclosure to this letter summarizes the specific audit and investigation findings applicable to each agency.

Our review was conducted in accordance with generally accepted government auditing standards. During our work, we:

--Examined Federal agency case files containing the results of monitoring activities, audits, and investigations of the three Sanford, Florida, agencies. We did not independently verify the specific audit and investigation findings or do audit work at the three community agencies.

--Interviewed Florida State officials about programs for which they have become responsible under Federal block grants.

--Interviewed Federal officials about HUD's public housing program, the Department of Health and Human Services' Head Start Program and former Community Services Administration programs, a Department of Commerce grant to SEEDCO for small business development, the National Credit Union Administration's knowledge of a grant to SEEDCO for support of a local credit union, the status of complaints filed by Seminole Community Action agency employees with the Equal Employment Opportunity Commission,

and the status of cases regarding SEEDCO and the Sanford Housing Authority referred to the Department of Justice.

We also discussed future funding of the three community agencies with Federal and State officials.

The community agencies discussed had an opportunity to comment on the prior audits and investigations, and we have included their comments where appropriate. At your request, we did not obtain comments on this report. Also, as arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 7 days from the date of the report. At that time we will send copies to interested parties and make copies available to others upon request.

Sincerely yours,

  
Richard L. Fogel  
Director

Enclosure

SUMMARY OF AUDITS AND INVESTIGATIONSSEMINOLE EMPLOYMENT ECONOMIC DEVELOPMENT CORPORATIONSANFORD HOUSING AUTHORITYSEMINOLE COMMUNITY ACTION, INC.SEMINOLE EMPLOYMENT ECONOMIC  
DEVELOPMENT CORPORATION

The Seminole Employment Economic Development Corporation (SEEDCO) is a community development corporation located in Sanford, Seminole County, Florida. Formed in June 1970, the corporation's purpose is to promote economic development and create jobs for disadvantaged and unemployed persons in Seminole County. Although our information about SEEDCO's current funding level and sources is not complete, in fiscal year 1981, SEEDCO received over \$1 million in grants from the Community Services Administration (CSA). SEEDCO's other Federal funding sources have included the Departments of Health and Human Services (HHS) and Commerce.

Our review of prior audits and investigations, and input from responsible Federal officials, indicated:

- SEEDCO has had a history of unsuccessful business ventures, reportedly due to mismanagement.
- Efforts are now underway by Commerce to recover \$200,000 from SEEDCO ventures so as to restore a SEEDCO grant made for small business development.
- In January 1983, a \$2.6 million SEEDCO-administered Rural Development Loan--about \$600,000 of which was used to fund an unsuccessful amphibious aircraft business venture--was declared in default.
- In June 1982, alleged improprieties concerning a SEEDCO-administered youth employment and training project were referred by HHS for investigation to the Department of Justice.
- HHS is seeking recovery from SEEDCO of \$125,000 in unspent grant funds awarded to support a local credit union.

Inability to develop  
profitable businesses

In 1976, several Members of Congress from Florida requested that we review SEEDCO. Their requests responded to community concerns and newspaper reports that SEEDCO was not managed effectively and that Federal funds were not being used as intended by the Congress.

In September 1977, we reported<sup>1</sup> that, although SEEDCO met the organizational requirements of CSA, SEEDCO's management weaknesses impaired its ability to select and develop profitable businesses. For example, SEEDCO had invested CSA funds amounting to over \$1.5 million in eight business ventures. Three businesses had been dissolved at a loss of about \$407,000; all the others had deficits as of June 30, 1976; and only three of the five active businesses appeared to have some potential for profit making.

In November 1979, a CSA program assessment reported that SEEDCO had a total of \$2.8 million in CSA funds invested in various ventures. Four businesses were insolvent, two had net losses, and one was being liquidated. Two of the four insolvent businesses were active ventures at the time our 1977 report was issued.

Efforts underway to restore  
Department of Commerce grant

In April 1982, an independent public accountant reported on the status of a \$200,000 Commerce grant to SEEDCO. The grant's purpose was to establish a revolving loan fund in Seminole County to help develop small businesses. The accountant's report showed that only SEEDCO business ventures were to receive loans and, as required, the \$200,000 had been loaned to three SEEDCO ventures. The 24- to 26-month loans were made in November and December 1979.

The report showed that as of March 1982, no payments had been received from the ventures and that one venture was bankrupt, one had ceased operations, and one had been sold.

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<sup>1</sup>"Management of the Seminole Employment Economic Development Corporation" (HRD-77-103, Sept. 2, 1977).

- One venture had declared bankruptcy. The loan was to be secured by personal guarantees of owners/officers and their spouses. The spouses never signed guarantees and the owners/officers have since declared personal bankruptcy. SEEDCO intended to repay the loan for the venture.
- Another venture had both management and cash flow problems that caused the shutdown of operations. SEEDCO's management had written the loan off as uncollectible.
- The third venture was sold by SEEDCO. Although SEEDCO had established an allowance for doubtful accounts for the loan amount, its management said that the installment sales proceeds would be applied to the loan.

The Regional Director, Office of the Inspector General, Department of Commerce, in Atlanta, Georgia, told us that Commerce officials were working with SEEDCO to recover the \$200,000 so as to restore the grant.

Rural Development Loan declared  
in default in 1983

Between October 1980 and July 1982, SEEDCO incrementally received a \$2.6 million Rural Development Loan originally from CSA. (CSA was terminated in September 1981 and replaced by the Office of Community Services in HHS.) In August 1982, auditors from HHS' Office of Inspector General (IG) in Washington, D.C., reported numerous deficiencies in SEEDCO's administration of the loan, noting that SEEDCO had serious cash flow problems and that its operating expenses for the year ended in May 1982 exceeded its income.

The report showed that SEEDCO had loaned \$2 million to the Dade County Board of Commissioners and \$600,000 to its own amphibious aircraft business venture. The report noted that security for these loans was inadequate. SEEDCO's ability to repay the \$2.6 million CSA loan was questionable because its assets consisted primarily of unprofitable and heavily mortgaged investments. Specific findings included:

1. SEEDCO was in arrears on interest payments.
2. Contrary to regulations, SEEDCO had used nearly all of the interest and principal collected from the loans for its operating costs and advances to subsidiaries.

3. Approximately \$23,000 in Federal and non-Federal funds was paid into a "President Account" and charged to "other Direct Costs, Non-Federal," with no further accountability.
4. SEEDCO was lax in administration and did not submit a plan to CSA for providing loan servicing, technical assistance, evaluation, and monitoring.

The IG auditors recommended that HHS' Office of Community Services consider invoking the default clause of the loan agreement.

The report further noted that SEEDCO's International Aeromarine Corporation, which received the \$600,000 loan, had been inactive since November 1981. When the IG auditors visited the aeromarine site, they found that one partially completed aircraft and all production equipment and tools were in storage and that the project would require between \$1.1 and \$1.4 million, to complete.

The auditors concluded that CSA should not have approved the \$600,000 loan because the business did not have sufficient capital available to complete development and production of the aircraft. They also pointed out that repayment of the loan depended upon SEEDCO's obtaining considerable additional capital and establishing a successful manufacturing and sales program for the aircraft, both of which appeared speculative. SEEDCO claimed that orders had been placed for the aircraft, but the IG auditors reported they were unable to identify any buyers from the documents reviewed.

SEEDCO's November 1982 response to the IG's report took exception to each finding. SEEDCO acknowledged its cash flow problems but pointed out that the IG auditors had made no attempt to assess problems caused by delays in obtaining a \$400,000 loan from the State of Florida, or to take into account SEEDCO income from such sources as service and management fees, interest, and rental income. SEEDCO also asserted that its requests for funds from HHS' block grant discretionary funds had been rejected because of the adverse IG report.

On January 14, 1983, the Director of HHS' Office of Community Services in Washington, D.C., declared SEEDCO to be in default of the \$2.6 million loan, stating that the default decision was based upon the IG's report and other information. Four instances of default were cited and discussed.

- Failure to carry out the work program as stated in the loan applications and/or to comply with program regulations, loan agreements, and/or notes.
- Failure to remedy adverse changes in SEEDCO's financial condition.
- Failure to make timely interest payments at 1 percent.
- Submission of false or incorrect material information to the Office of Community Services.

SEEDCO was directed to begin immediate repayment of the loan plus any interest accrued and proceeds earned on the loan.

Alleged youth employment and training project improprieties referred to Justice

In June 1979, CSA awarded SEEDCO a 19-month \$300,000 grant to conduct an employment and training project for youth. Charges were made that the project director used employees, funded both by this project and another Federal program, to do construction work on a private residence, and that the director kept the money paid by the owner of the residence instead of depositing it into the project account.

In June 1982, the IG's Office in Washington, D.C., reviewed the case and referred it for further investigation to the Department of Justice. A Justice official informed us that as of January 1983, an investigation had not been made.

SEEDCO asked to repay unspent credit union assistance grant

In May 1981, CSA awarded SEEDCO a 12-month \$150,000 grant to provide cash assistance and administrative support for a local credit union. Credit union officials alleged that SEEDCO was withholding these funds and diverting them for its own use. As of March 1983, the allegations had not been fully resolved.

In July 1982, a Seminole Community Federal Credit Union official notified officials of HHS' Office of Community Services in Atlanta that SEEDCO was withholding grant funds from the credit union. The credit union official speculated that the funds may have been diverted to a SEEDCO venture.

In October 1982, the same official requested HHS' Office of Inspector General in Washington, D.C., to investigate attempts

by SEEDCO to withdraw grant funds it had deposited at the credit union. In October 1982, the IG's office notified the official that her concerns were programmatic in nature, and the matter was forwarded to the Office of Community Services.

Office of Community Services officials in Washington, D.C., and Atlanta, told us that they received these complaints but did not consider them major. They said that all funds were not to be turned over directly to the credit union and they believed the credit union was not fully aware of the grant provisions. They also told us that they were terminating the 12-month grant and that SEEDCO would be requested to repay about \$125,000. They cited an independent public accountant's report that showed that SEEDCO had expended only about \$25,000 of the \$150,000 grant.

A National Credit Union Administration official told us that his review of the case showed that the credit union had not received all of the grant funds and that a serious need still existed at the credit union for financial assistance.

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HHS officials in Washington, D.C., told us that in keeping with the shift to block grant funding, they were working with SEEDCO to finalize closeout of CSA grants by early 1983. HHS officials also told us that SEEDCO could compete with other organizations for the limited block grant funds HHS authorized for discretionary use.

An official of Florida's Department of Community Affairs told us that SEEDCO was not eligible for most of the State's community services block grant funds because it technically was not a community action program agency. Seminole Community Action, Inc., is the only such agency operating in Seminole County, Florida.

#### SANFORD HOUSING AUTHORITY

The Sanford Housing Authority was established in 1941 to provide low-income residents with shelter at rents they could afford. Such agencies ordinarily develop, own, and operate low-income housing projects, and finance them through the sale of tax-exempt obligations. The Department of Housing and Urban Development (HUD) provides such financial assistance as annual contributions to pay the principal and interest on obligations, rent subsidies, and home improvement grants. From 1980 through 1982, HUD provided about \$1.8 million to the Sanford Housing Authority.

HUD and independent accountant audit reports, as well as our discussions with responsible Federal officials, indicated that

- Sanford's housing rehabilitation project was being terminated for, among other reasons, excessive home renovation costs;
- the Sanford Housing Authority invested a \$100,000 HUD home modernization grant for nearly 18 months in a certificate of deposit while needed repairs went undone; and
- the Housing Authority had numerous internal control problems.

Excessive home  
renovation costs

In November 1978, Sanford city officials asked the Housing Authority to acquire, rehabilitate, and sell, over a 3-year period, 75 single family units at an estimated project cost of about \$1.2 million. Funding was provided under HUD's Community Development Block Grant Program. In February 1981, the city notified HUD that it was withdrawing its support for the project because (1) costs incurred by the Housing Authority to rehabilitate seven houses seemed excessive and (2) program funds were being used improperly to purchase vehicles and pay salaries and travel expenses.

HUD program officials and the HUD Inspector General reviewed the Housing Authority's administration of the program. HUD program officials determined that eight (instead of seven) houses had been rehabilitated, but supporting cost records were not available. Also, certain employees had been paid for work either not performed or not related to or reimbursable by the program. HUD directed the city of Sanford to reconstruct cost records and suspend further rehabilitative activities unless approved by HUD.

In May 1981, IG auditors reported that as of March 31, 1981, about \$755,500 had been used to purchase and/or rehabilitate 15 properties--13 houses and 2 vacant lots. Eight of the houses had been rehabilitated, and one had been demolished. No work had been done on four of the houses or the two lots.

The auditors determined that the cost of acquiring and rehabilitating the eight houses was about \$65,600 each. The auditors showed that these costs would be offset by sales proceeds,

estimated at about \$16,000 for each house, and increased by other administrative costs, estimated at about \$25,000 for each house. The auditors concluded that the rehabilitation costs for the eight houses were excessive and unreasonable, attributing the high costs to the (1) virtual new construction of the houses, (2) use of inexperienced laborers, (3) poor project management, (4) inadequate city control over the program, and (5) inadequate HUD monitoring.

In addition, the auditors reported allegations of possible criminal violations involving kickbacks between the former Housing Authority Director and a local architect. In May 1982, the Justice Department reported that its investigation of these allegations evidenced no violations.

Officials at HUD's Jacksonville area office, which had project monitoring responsibilities, told us that they were not able to properly monitor the project because of staff and travel funds shortages. They also told us that the program was being terminated and the city of Sanford was managing the closeout--reconstructing records; disposing of equipment, material, supplies, and properties purchased with grant funds; and making a final accounting of program costs--estimated to be completed in early 1983.

HUD area office officials further told us that the city of Sanford can apply for and compete with other small cities for grant funds in the future. They said Sanford's future applications would be evaluated on their merits and not on the city's prior performance.

Home modernization funds invested  
in certificate of deposit

In March 1981, HUD provided the Sanford Housing Authority \$100,000 to make capital improvements to housing units and to pay for related architectural and engineering fees. Capital improvements were to consist of (1) replacing old thermostats, (2) insulating ceilings and end walls, and (3) installing suspended ceilings in utility rooms.

According to HUD's Jacksonville area officials, the Housing Authority invested the grant money in a certificate of deposit at 12.65 percent in April 1981. As of October 1982, only \$3,380 had been expended for improvements, and as of January 1983, needed improvements had not been made, and the money was still invested.

HUD area officials further told us that they believed the modernization program had been neglected by the former Housing Authority Director because of problems he was experiencing with the previously discussed home renovation program. They said they were confident that, under the new director, the home modernization program soon would get underway. Also, they said HUD, in awarding similar grants, was exercising better control over the amount of funds available to public housing authorities.

#### Internal control problems

HUD management reviews and independent public accounting reports detailed numerous internal control problems at the Sanford Housing Authority. In June 1981, HUD's most recent management review reported that the Housing Authority needed to develop stronger administrative controls over maintenance, budgetary, and fiscal operations. Also, an independent public accountant's examination of the Housing Authority's financial statements for the 2-year period ended June 30, 1981, disclosed similar internal control problems. Housing Authority officials responded to both the management review and the audit, indicating that actions were underway to correct the deficiencies.

An official at HUD's Jacksonville area office informed us that the Housing Authority's administrative problems are not uncommon for public housing authorities. He noted, however, that the Housing Authority's problems became more severe during the period it was administering the previously discussed home renovation program.

#### SEMINOLE COMMUNITY ACTION, INC.

Seminole Community Action was formed in October 1965, as a nonstock organization to acquire--by grant, gift, and otherwise--funds for programs aimed at relieving poverty in Seminole County, Florida. The agency has provided such services as meals on wheels, outreach, home weatherization, and short-term emergency energy assistance. Currently, it administers HHS' Community Services Block Grant Program and Head Start Program under which health education, nutrition, and social services are provided to disadvantaged preschool children and their families. During fiscal years 1981-82, Seminole Community Action received about \$1 million in Federal funds--about \$735,000 for the Head Start Program, and about \$313,000 for programs funded under the Community Services Block Grant.

Prior audits and investigations, combined with discussion with Federal officials, indicated

--discrimination charges concerning the Head Start Program were substantiated but the complaints apparently were either resolved or withdrawn and

--the agency had persistent internal control problems.

#### Discrimination in Head Start Program

Charges were made that the agency was responding to discrimination complaints made by white employees differently than to those made by black employees. In June 1980, officials from HHS' Atlanta office verified the complaints and concluded that the differing treatment was racially or personal-friendship motivated, and thus was prohibited by the Civil Rights Act and the Head Start Act.

In August 1980, HHS directed the agency to address the complaints and develop a corrective action plan. Although a plan was submitted, HHS officials determined in December 1980 that it had not been followed.

Between April 1981 and January 1982, HHS officials notified the agency on three occasions that action might be taken to withdraw Federal assistance unless prior violations were corrected and procedures established to prevent further violations. In February 1982, the agency submitted a second plan addressing the complaints, and indicating improved personnel policies and procedures and other personnel management improvements. After several revisions, in August 1982 HHS officials approved the plan. They told us that, although they had not made an onsite assessment, they believed that the agency had systems in place to properly handle such personnel matters.

HHS officials informed us that two employees--apparently dissatisfied with Seminole Community Action's handling of their complaints--had requested an investigation by the Equal Employment Opportunity Commission. An official at the Commission's Tampa, Florida, office told us, however, that although two employees had forwarded letters, they were not the same two employees referred to by the HHS officials. He also said that the two cases were closed in mid-1981, because the two complainants failed to provide more specific information.

Internal control problems

Eight independent public accountant reports covering the period September 1977 through November 1981--four dealing with the Seminole Community Action agency's administration of the Head Start Program, and four with the agency's administration of programs funded by the former CSA--cited numerous administrative and financial deficiencies. Officials from HHS' regional audit group and Head Start Program told us that, although the deficiencies were persistent, they were not individually serious.

HHS regional audit officials apparently considered serious, however, a public accountant's finding that Head Start employees' time and attendance documents were either missing, improperly completed, or unsigned. In March 1981, regional officials notified the accountant that his working papers for fiscal years 1978-79 showed that this deficiency was a "continuing, significant problem" at the agency. They recommended that the accountant address this problem more fully in the next audit. The accountant's subsequent report stated that "During our payroll testing, it was noted that a few Head Start Director's time and attendance reports were missing." The agency addressed this finding by pointing out planned corrective actions.

Funding for the agency's former CSA-supported programs is now Florida's responsibility. An official of Florida's Department of Community Affairs in Tallahassee told us that they were evaluating the agency's application for funds. Also, she told us that Florida plans an extensive application review process and, if funds are awarded, the agency's operations would be closely monitored.