U.S. Department of Agriculture
Office of Inspector General
Southwest Region
Audit Report

Rural Development
Northeast Louisiana Delta
Community Development Corporation
Rural Enterprise Community
Loans and Grants
Madison Parish, Louisiana

Report No.
34099-4-Te
March 2001

UNITED STATES DEPARTMENT OF AGRICULTURE
OFFICE OF INSPECTOR GENERAL
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DATE: March 28, 2001

REPLY TO
ATTN OF: 34099-4-Te

SUBJECT: Northeast Louisiana Delta Community Development Corporation

TO: Michael B. Taylor
Acting State Director
Rural Development

This report presents the results of our audit of the Northeast Louisiana Delta Enterprise Community as administered by the Northeast Louisiana Delta Community Development Corporation at Tallulah, Louisiana.

The written response to the draft report is included as exhibit H. Based on the written response, we concur with the management decisions for Recommendations Nos. 5, 9, and 11. Excerpts from the response and our comments are presented in the Findings and Recommendations section of the report. Further, this section of the report explains the actions necessary to accept management decisions for Recommendations Nos. 1, 2, 3, 4, 6, 7, 8, 10, 12, and 13.

In accordance with Departmental Regulation 1720-1, please furnish a reply within 60 days describing corrective actions taken or planned and the timeframe for implementing the recommendations for which management decisions have not yet been reached. Please note that the regulation requires management decisions to be reached on all findings and recommendations within a maximum of 6 months from report issuance. Please follow your internal agency procedures in forwarding final action to the Office of the Chief Financial Officer.

/s/ R.P.CHILDS
for
ROBERT E. GRAY
Regional Inspector General
for Audit

EXECUTIVE SUMMARY

NORTHEAST LOUISIANA DELTA COMMUNITY DEVELOPMENT CORPORATION RURAL ENTERPRISE COMMUNITY LOANS AND GRANTS MADISON PARISH, LOUISIANA

REPORT NO. 34099-4-Te

RESULTS IN BRIEF

Northeast Louisiana Delta Community Development Corporation (NELDCDC) is the lead entity for the Northeast Louisiana Delta Enterprise Community, consisting of four census tracts in Madison Parish, Louisiana. Madison Parish is located in the heart of the rural north Louisiana Delta, one of the poorest regions of the nation. NELDCDC's overall Enterprise Community (EC) mission is to: (1) revitalize distressed communities within Madison Parish and surrounding areas by creating economic opportunities and sustainable community development, (2) create livable and vibrant communities where human initiative, work and stable families can flourish, and (3) provide an environment that encourages "grass root" participation by all the communities' inhabitants and organizations through the development of a system that empowers its citizens by ensuring they have a voice in the future direction and plans for their community. This mission is embodied in a United States Department of Agriculture (USDA) approved NELDCDC strategic plan containing 21 benchmarks. Since inception of the EC programs on December 31, 1994, Federal funding directly to NELDCDC has totaled approximately $5.5 million.

This audit was performed in response to the allegations cited in: (1) the Louisiana Legislative Auditor's July 16, 1999, referral to Office of Inspector General (OIG), Audit, and (2) the Louisiana 5th District Congressman's August 30, 1999, letter to the Louisiana Rural Development State Director.

The allegations included: (1) flagrant violations of the NELDCDC Articles of Incorporation and Bylaws, (2) mismanagement of EC benchmarks, (3) housing program violations, including shoddy workmanship by unlicensed contractors and financial assistance to ineligible participants, (4) questionable use of EC program loan and grant funds, (5) conflict of interest involving a corporate entity in which a NELDCDC officer has an interest, (6) withholding of financial information from members of NELDCDC Board of Directors, (7) questionable employment practices, and (8) members of the NELDCDC Board of Directors being handpicked by a NELDCDC officer.

The objective of the audit was to assess the validity of the allegations and their ultimate impact on the NELDCDC administered EC programs.

The audit confirmed four of the eight allegations: (1) mismanagement of EC benchmarks, (2) housing program violations, (3) questionable use of EC earmarked loan funds, and (4) potential conflict of interest involving a corporate entity in which a NELDCDC officer has an interest. Specifically, the audit disclosed the following:

- NELDCDC did not timely and accurately report its benchmark funding and progress data or its individual program budgetary, financial status, and performance data as required by agency guidelines. These conditions were due to a lack of emphasis on timely and accurate reporting and inadequate attention to program reporting requirements by NELDCDC officials, inadequately trained NELDCDC personnel, and ineffective monitoring and oversight by the Louisiana Rural Development State Office. As a result, objectives of the Community Development Benchmark Management System (BMS) were not met, program accomplishments were misstated, and the EC program could be subjected to abuse and misuse of funds.

- NELDCDC's housing repairs and improvements under the Housing Preservation Grant Program (HPG), the Rural Housing Assistance Grant Program (RHAG), and the Social Service Block Grant Program (SSBG) were generally performed in a less than workmanlike manner; the execution of contracts, performance of inspections, and payment to contractors did not fully comply with the overall requirements of the respective granting authorities; and certain individual homeowner case files did not fully support the total reported cost of repairs and improvements. These conditions were due, in part, to enabling provisions of the Empowerment Zone/Enterprise Community (EZ/EC) Program legislation, disparities in the operating procedures, a lack of adequate administration of the overall initiative by NELDCDC, and a lack of adequate oversight by Rural Development These conditions resulted in substandard repairs, safety hazards, program abuse, and widespread criticism of the NELDCDC EC housing initiative. Additionally, they resulted in questionable costs totaling $89,936 for repairs of the 11 properties reviewed.

- NELDCDC approved and funded two EC earmarked Intermediary Relending Program (IRP) loans totaling $155,000 to projects that did not provide the requisite 75 percent minimum benefits to residents within the designated EC boundaries. This condition was due, in part, to NELDCDC incorrectly basing its approval actions on a Rural Development approved revision of the NELDCDC workplan and to Rural Development not adequately reviewing the ultimate recipients' loan applications and business plans. As a result, the two loans totaling $155,000 were improperly approved and improperly funded, diverting funds from proper program uses. These two loans have outstanding balances totaling $122,722.

- Since April 1997, NELDCDC rental payments for administrative office space have exceeded the limits of allowable costs by approximately $15,732 for the 36-month period ending March 31, 2000. This condition exists because NELDCDC rents the space from a for-profit corporation controlled by a NELDCDC officer and the officer did not consider the requirements of Office of Management and Budget (0MB) Circular A-122 when establishing the rental amount. Additionally, Rural Development did not assess the propriety of the established rental amount. As a result, the $15,732 in excess rental payments were diverted from proper program uses.

- No adverse conditions were noted during our review of the other allegations.

KEY RECOMMENDATIONS

We recommend that Rural Development: (a) provide the necessary training to NELDCDC personnel on the reporting requirements and effective use of the BMS, and ensure that NELDCDC officials accurately document project funding and progress in the BMS, (b) withhold NELDCDC's program funding if they do not comply with program requirements, (c) provide the responsible NELDCDC personnel with the necessary training to ensure full compliance with the basic requirements for program accountability, (d) monitor the accuracy of all NELDCDC annual budgetary and performance activity reports and timely correct any discrepancies, (e) develop procedures and provide the necessary technical support to the NELDCDC staff to ensure the uniform execution of all contracts for EC housing repairs, improvements, and inspections, notwithstanding the source of funding for the individual projects, (f) correct the defective housing repairs, (g) consult with the Office of the General Counsel to determine what action can be taken to collect the outstanding balance of the two improper EC earmarked IRP loans, (h) strengthen controls over the IRP approval process to ensure that future loans will benefit the EC residents at the requisite level, and (i) coordinate with the

State passthrough agency to recover the excess rental payments and ensure future rent payments are in compliance with established criteria.

AGENCY RESPONSE

The Louisiana State Office of Rural Development provided a detailed response to our draft audit report as well as 36 attachments. The response is attached as exhibit H; however, we did not include the attachments because of their voluminous nature. In general, we characterize the response for Recommendations Nos. 1, 2, 4, 5, 6, 9, and 11 as providing balance to the audit report by showing that Rural Development personnel have made considerable efforts to help NELDCDC operate its EC activities in accordance with the law and regulations. Further, the response provided assurances that Rural Development will continue to work with NELDCDC officials to improve the effectiveness of EC activities.

Regarding Recommendations Nos. 3, 7, 8, 10, 12, and 13, Rural Development officials expressed the opinion that the recommendations were inappropriate, or they did not have the authority and/or responsibility to implement them.

In summarizing their responses to Recommendations Nos. 3, 7, 8, 10, 12, and 13, in general, Rural Development officials stated the agency will initiate immediate actions to increase training efforts to NELDCDC personnel in the areas of reporting and use of the BMS, proper accountability, annual budgetary reports, etc., as OIG has recommended. However, they proposed revised corrective actions for several recommendations and provided documentation in support of their position.

They further stated in their response that "[t]he Executive Summary states the Louisiana Rural Development State Office was found to have provided ineffective monitoring of the EC and oversight functions. The terms of the memorandum of agreement (MOA), supplemented by specific OCD directives, mandated the primary roles of the State versus USDA Rural Development, and necessitated the ongoing participation and active involvement of the State in the maintenance of the benchmarking process. The Agency has demonstrated in the attached response all efforts made to fully comply with National guidelines set forth in administering the EC Program. As reflected in a management control review report of Louisiana issued by Office of Community Development in Washington, D.C., dated August 13-16, 2000, the Rural Development State Office in Louisiana, through its consistent support, has made the Northeast Louisiana Delta Enterprise Community benchmarks a model for other communities to follow. In several instances, the agency has been cited for violating procedures and guidelines that either do not exist or are being interpreted differently by Rural Development and OIG. It appears several of the confirmed allegations centered on SSBG funds, over which Rural Development has no control, nor monitoring responsibility. There are two IRP loans cited in the report for which OIG is recommending the agency collect the outstanding balance of the "improper loans." The Agency has provided documentation to support the fact that based on the Agency's interpretation of the guidelines at both the State and National levels, both loans were indeed proper."

"We respectfully request full consideration be given by OIG to the Agency's response to this report since we are of the opinion this could significantly impact the final report."

OIG POSITION

Rural Development provided a detailed response outlining efforts it had made to train NELDCDC officials and monitor its operations. We acknowledge that Rural Development personnel have made considerable effort to train and provide guidance to NELDCDC officials. Implementing Recommendations Nos. 1, 2, 4, 5, 6, 9, and 11 as committed in the response to the audit will help NELDCDC more effectively meet program objectives.

Notwithstanding the information Rural Development officials provided concerning Recommendations Nos. 3, 7, 8, 10, 12, and 13, we continue to believe the actions outlined in the recommendations need to be accomplished; however, some modifications of the recommendations have been made.

Regarding Recommendation No. 3, Rural Development officials indicated that agency regulations did not provide authority for them to revoke NELDCDC's EC designation for not complying fully with BMS reporting requirements. We have modified the recommendation accordingly.

Regarding the recommendations to improve the quality of housing repairs (Recommendations Nos. 7 and 8), Rural Development officials stated the Section 504 Grant program did not give them authority to make repairs on defective workmanship and they could not establish guidelines related to the housing initiative on their own. Because of the homeowners' dissatisfaction with the quality of housing repairs, Congressional interest in the matter, and the negative media publicity, we believe Rural Development needs to take the initiative to ensure these matters are corrected, particularly in light of the fact that EZ/EC legislation states

USDA has programmatic responsibility, and Rural Development guidelines indicate State Rural Development officials are to coordinate with applicable entities to facilitate effective functioning of EZ/EC's.

Regarding the approval of loans where benefits did not sufficiently accrue to residents of the EC boundary (Recommendation No. 10), Rural Development officials maintained the loans were appropriate and OCD, Washington, D.C., officials supported their position. They stated that one project came within the EZ/EC boundary and the other project within 25 percent outside the EZ/EC boundary. However, they provided no evidence to refute our audit results that as little as 20 percent of the benefits accrued to the residents of the EZ/EC boundary. The EZ/EC legislation requires grant funds to be used for activities that benefit residents of the area for which the grant is made. We continue to believe these loans violate legislative intent.

Regarding the recovery of excessive rental charges for NELDCDC's office space (Recommendations Nos. 12 and 13), Rural Development officials stated that this matter appears to be an issue that NELDCDC needs to address with the State passthough agency for SSBG funds. Although, the State passthough agency may disburse the funds and may need to recover the questioned costs, we believe because of the Rural Development officials' oversight responsibilities, they should coordinate with the State passthrough agency to initiate action on this matter.

A more detailed assessment of Rural Development's response and our position is contained in the Findings and Recommendations section of the report following each recommendation. We have accepted management decisions for Recommendations Nos. 5, 9, and 11.

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INTRODUCTION

BACKGROUND

Congress established the EZ/EC Program in the Omnibus Budget Reconciliation Act of 1993 (Act). Under the Act, the communities that wanted to participate in the program had to: (1) meet specific criteria for characteristics such as geographic size and poverty rate, and (2) prepare a strategic plan for implementing the program. As provided by the Act, the Secretary of Agriculture designated 3 rural EZ's and 30 rural EC's as Round I participants on the basis of their strategic plans.

The Act also amended Title XX of the Social Security Act to authorize the use of Department of Health and Human Services (HHS) administered SSBG funds for the EZ/EC program and placed increased authority for funding decision making with the local EZ/EC governance structures. Historically, SSBG funds that were allocated to the States could be used only for social activities, such as programs to assist and feed children. However, under the EZ/EC program, the Act expanded the permissible uses of the SSBG funds by allowing their use for such activities as purchasing or improving land and facilities or for providing cash payments to individuals for medical care[1].

In addition to the EZ/EC SSBG funds, all of the designated EZ/EC communities received several types of Federal assistance. Businesses located in the EZ's and EC's are eligible for low-interest loans from State or local governments, to be used for facilities and land. In addition, businesses located within EZ's are eligible to receive tax credits on the wages paid to the employees who live and work in the EZ, and may deduct higher levels of depreciation expenses. A number of Federal departments and agencies also made a commitment to give all EZ's and EC's special consideration in the competition for funds from many other Federal programs and to work cooperatively with them on overcoming regulatory impediments.

The Federal assistance provided the EZ's and EC's must be spent in accordance with strategic plans, as approved by the USDA Rural Development State Director. These plans must be developed in accordance with four key principles that will be utilized to evaluate the plan and assess the propriety of the use of EZ/EC program funds. The key principles are: (1) economic opportunity, including job creation within the community and throughout the region, entrepreneurial initiatives, small business expansion,

[1] General Accounting Office Report No. B-276194, March 31, 1997.

and training for jobs that offer upward mobility, (2) sustainable community development, (3) community based partnerships, and (4) strategic vision for change. In addition, the strategic plans outline how the communities would achieve their goals, including ensuring the active participation of the members of the community, the local private and nonprofit entities, and the Federal, State, and local governments.[2]

The HHS, USDA, and the States play key roles in administering the EZ/EC program. The HHS makes SSBG grants to the States, and the designated State agency obligates the grant funds and approves requests from the EZ's and EC's for the funding of specific benchmark projects.

The USDA, through Rural Development, makes loans and grants to the EZ's and EC's through IRP, Rural Business Enterprise Grant (RBEG), HPG, RHAG, and other loan and grant programs listed in exhibit C. Certain of these loans and grants are made directly to the designated lead EZ/EC entity and others are made to municipalities and other community governing authorities with specific earmarking for EZ/EC benchmark projects. Notwithstanding the extent and amount of funding from other Federal agencies (including approximately $208.4 million in SSBG funds to the 3 EZ and 30 EC Round I participants), the USDA Rural Development State Director is responsible for: (1) oversight, monitoring, and evaluating the progress of the EZ's and EC's in implementing their strategic plans and benchmarks, and (2) providing the entities with technical assistance in the achievement of their goals. In addition, the Secretary of Agriculture may revoke the designation of a rural area as an EZ or EC if it is determined, on the basis of the periodic monitoring, that the applicant has modified the boundaries of the area, failed to make satisfactory progress in achieving the benchmarks set forth in the strategic plan, or has not complied substantially with its strategic plan.[3]

Each EZ and EC develops its own performance benchmarks to ensure adherence to and measure the results of each activity in its EZ/EC strategic plan. This is a dramatically new method for measuring success. Under the traditional government approach, Federal programs are measured by the amount of money spent. Under this initiative, EZ/EC specific benchmarks measure results of activities detailed in the EZ/EC strategic plan (i.e., outputs, such as number of houses built or the number of people enrolled in a training program). These benchmarks provide a blueprint for an entrepreneurial, no-nonsense way to distribute funds, fulfill commitments, and measure success. The benchmarks are documented in a benchmark agreement between the EZ/EC and USDA and form the basis for status reports and evaluations. Additionally, the benchmarks form the basis of the continuing partnership between the Federal Government and the EZ's and

[2] 7 Code of Federal Regulations (CFR) 25.200, March 8, 1995.
[3] 7 CFR 25.403, March 8, 1995.

EC's, identifying priority projects that may need additional resources, regulatory relief, or technical assistance.[4]

The NELDCDC is the lead entity for the Northeast Louisiana Delta Enterprise Community consisting of four census tracts in Madison Parish, Louisiana. Madison Parish is located in the heart of the rural north Louisiana Delta, one of the poorest regions of the nation. The stated mission of this EC is: (1) to revitalize distressed communities within the parish of Madison and surrounding area by creating economic opportunities and sustainable community development, (2) to create livable and vibrant communities where human initiative, work and stable families can flourish, and (3) to provide an environment that encourages "grass root" participation by all the communities' inhabitants and organizations through the development of a system that empowers its citizens by ensuring they have a voice in the future direction and plans for their community. This mission was originally embodied in 15 benchmarks that were later expanded to 21 benchmarks.

OBJECTIVES

The audit objectives were to assess: (1) the validity of the allegations included in the July 16, 1999, referral from the Louisiana Legislative Auditor to OIG and the August 30, 1999, letter from the Louisiana 5th District Congressman to the Louisiana Rural Development State Director,; and (2) the impact of the allegations and adverse conditions on the NELDCDC administered EC programs.

SCOPE

We audited the EC programs, as administered by NELDCDC at Tallulah, Louisiana, during the period March 29, 2000, to October 2, 2000. The period of audit was from inception of EC funding, December 31, 1994, to October 2, 2000. We initiated the audit in response to allegations included in the Louisiana Legislative Auditor's July 16, 1999, referral to OIG-Audit and the Louisiana 5th District Congressman's August 30, 1999, letter to the Louisiana Rural Development State Director. The allegations included: (1) flagrant violations of the NELDCDC Articles of Incorporation and Bylaws, (2) mismanagement of EC benchmarks, (3) housing program violations, including shoddy workmanship by unlicensed contractors and financial assistance to ineligible participants, (4) questionable use of EC program loan and grant funds, (5) conflict of interest involving a corporate entity in which an NELDCDC officer has an interest, (6) withholding of financial information from members of NELDCDC Board of Directors, (7) questionable employment practices, and (8) members of the NELDCDC Board of Directors being handpicked by an NELDCDC officer.

[4] EZ/EC Implementation Guide, Establish Performance Benchmarks for EZ's and EC's, page 12, http://www.ezec.gov/about/implemen.html

The NELDCDC is the lead entity for the Northeast Louisiana Delta Enterprise Community (1 of the 30 Round 1 designated EC's). The nationwide funding for the 30 Round I designated EC's totaled $755,692,248, as of June 19, 2000. Of this total, the Northeast Louisiana Delta EC received $35,907,245, of which $5,503,967 was Federal funding distributed directly to NELDCDC.

We performed detailed reviews of: (1) benchmark management (e.g., input and update of data), (2) IRP and RBEG Micro Loan Program lending activities, and (3) administrative operations, including the acquisition of properties and rental of office space. In addition, we judgmentally selected and reviewed 2 months of SSBG expenditures, and 11 of the 62 housing repair projects. Since the allegations included questionable use of EC program funds to acquire property, the 2 months of SSBG expenditures were selected on the basis of NELDCDC's purchase of real property in those months. The 11 housing repair projects were selected to provide a representative sample from the various funding combinations. (See table 2.2.) The NELDCDC SSBG allocation totaled $2,947,368 and expenditures for the 2 sample months totaled $126,580 (4 percent). Repair costs for the 62 completed projects totaled $394,494 and these costs for the 11 sample projects totaled $148,940 (38 percent).

The audit was conducted in accordance with the Government Auditing Standards issued by the Comptroller General of the United States. Accordingly, it included such tests of program and accounting records as considered necessary to meet the audit objective. Universe data related to program funding was not verified except as disclosed by footnotes in exhibits B and C.

METHODOLOGY

The audit included interviews, record examinations, and onsite visits. Specifically, we reviewed program regulations, instructions, policies, and procedures as applicable to the EZ/EC program; General Accounting Office (GAO) and cognizant agency audit reports; Rural Development and Louisiana Department of Social Services (LDSS) progress reports and benchmark project assessments; Memorandum of Agreement between USDA, the LDSS, and NELDCDC; and NELDCDC Articles of Incorporation, Bylaws, strategic plan, program funding (loans and grants), and financial status reports. We interviewed Rural Development State and Monroe Area Office personnel, LDSS officials, the Louisiana Legislative Auditor, the NELDCDC officer, current and former NELDCDC board members, and the principal complainant. Additionally, we visited and interviewed third parties, including Louisiana Governor's Office of Rural Development officials, housing program grant recipients and materials suppliers, and IRP recipients. These steps were conducted to assess the validity of the above-cited allegations and the impact of these allegations on the NELDCDC administered EC programs.

FINDINGS AND RECOMMENDATIONS

CHAPTER 1	REPORT DATA OF BENCHMARK AND INDIVIDUAL PROGRAM ACTIVITIES DO NOT MEET AGENCY GUIDELINES FOR FREQUENCY, ACCURACY, AND CONTENT

The NELDCDC did not timely and accurately report its benchmark funding and progress data or its individual program budgetary, financial status, and performance data as required by agency guidelines. These conditions were due to a lack of emphasis on timely and accurate reporting and inadequate attention to program reporting requirements by NELDCDC officials, inadequately trained NELDCDC personnel, and ineffective monitoring and oversight by Rural Development. As a result, objectives of the BMS were not met, program accomplishments were misstated, and the program could be subjected to abuse and misuse of funds.

FINDING NO. 1

BENCHMARK FUNDING AND PROGRESS DATA ARE INACCURATE, INCONSISTENT, AND OUTDATED

The NELDCDC did not accurately disclose funding levels and did not update its benchmarks to timely and accurately report the funding and progress of its EC initiatives, as required by the BMS. As a result, the BMS could not be used as an effective management tool to spot problems and target needs for technical help; streamline the flow of information; or demonstrate accountability to Congress, the White House, and the public.

Federal Regulations (7 CFR 25.400) stipulate in part, that USDA (Rural Development) will require periodic reports for EZ's/EC's and that the reports will identify the action taken in accordance with the EZ/EC strategic plans. On the basis of this information and onsite reviews, USDA (Rural Development) will prepare periodic reports for the Office of Community Development (OCD) on the effectiveness of the EZ/EC program. The Federal Regulations further stipulated that USDA (Rural Development) would regularly evaluate the progress in implementing the strategic plan on the basis of performance reviews and other information.

The OCD developed an online BMS in 1998. The BMS was designed to: (1) create a management tool for EZ's, EC's, and USDA, (2) identify the best practices and success stories for wider appreciation and peer learning, (3) spot problems early and target the need for technical assistance, (4) streamline the flow of information, (5) demonstrate accountability to Congress, the White House, and the public, and (6) promote the many accomplishments of rural Empowerment Zones and Enterprise Communities.[5]

The OCD instructions for the BMS, dated September 1999, stipulate, in part, that every community must update its benchmarks on a monthly basis; and if the update is not made, the community runs the risk of losing earmark funding and will be considered for dedesignation of its EZ/EC status. The benchmark updating process is to take special note of: (1) output to date, (2) secondary outputs, (3) budgets for tasks, (4) funding and technical assistance resources, and (5) tasks done.[6] If a significant change is made to an individual benchmark, the BMS electronically prompts the Rural Development State Office for approval action; and following the Rural Development State Office approval action, OCD is electronically prompted relaying the action.

The instructions further stipulate that an annual benchmark report is required and will consist of a printout of the benchmark data in the system. Additionally, the manual states the BMS is the vehicle by which the required Annual Narrative Report will be filed.

As of March 26, 2000, the BMS disclosed that SSBG funding was underreported by $1,539,810. Specifically, the update showed NELDCDC received $1,103,500 in SSBG funds, although it had actually received $2,643,310 as of December 31, 1999 ($2,643,310 - $1,103,500 = $1,539,810). With $3,513,520 reported by NELDCDC as total Federal funding from inception, December 31, 1994, to March 26, 2000, SSBG provided approximately 75 percent ($2,643,310/$3,513,520) of their total Federal funds. Underreporting the receipt of funds from its largest single funding source by 58 percent ($1,539,810/$2,643,310) distorts NELDCDC's funding data to the extent the BMS: (1) could not be effectively used as a management tool for either NELDCDC or USDA, and (2) could not be used to demonstrate accountability to Congress, the White House, and the public.

As illustrated in table 1.1, NELDCDC benchmark data in the BMS were outdated, inconsistent, and inaccurate. As of July 18, 1999, only 1 (EC21) of the 21 NELDCDC benchmarks had been updated the prior month (June 1999) as required by BMS instructions. The lapsed time for the remaining 20 benchmarks ranged from 5 months (February 1999) to 7 months (November 1998). As of March 6, 2000, the benchmark data were more outdated than the July 18, 1999, data. Specifically, the lapsed time between updates for

[5] Instruction Manual for the Community Development Management System, Version 3, page 2, September 1999.
[6] Instruction Manual for the Community Development Management System, Version 3, pages 15-16, September 1999.

the 21 benchmarks ranged from 7 months (July 1999) to 15 months (December 1998). This condition negates the possibility of using the BMS: (1) to spot problems early and target the need for technical assistance, and (2) to streamline the flow of information, as was the intent of the system designers.

Table 1.1: Benchmark Data: Last Updated, Percent Task Completed, and Percent Benchmark Completed at Selected Intervals.

	REPORT DATE											
	07/18/1999			03/06/2000			03/26/2000			05/16/2000		
		PERCENT			PERCENT			PERCENT			PERCENT	
BMARK	LAST UPDATE	TASK COMP	BMARK COMP	LAST UPDATE	*TASK COMP	BMAR KCOM	LAST UPDATE	TASK COMP	BMAR KCOM	LAST UPDATE	TASK COMP	BMARK COMP
EC1	02/02/99	60	0	07/21/99	60	20	03/24/00	60	20	04/10/00	100	84
EC2	11/25/98	57	0	07/21/99	57	100	03/24/00	57	100	04/10/00	25	100
EC3	11/25/98	40	20	07/21/99	40	20	03/24/00	40	20	04/10/00	80	33
EC4	11/25/98	0	50	07/21/99	0	69	03/24/00	0	69	04/10/00	0	76
EC5	11/25/98	42	4	07/21/99	42	4	03/24/00	42	4	04/10/00	71	86
EC6	11/25/98	100	0	07/21/99	100	0	03/24/00	100	0	04/10/00	100	50
EC7	11/25/98	0	0	07/21/99	UA	0	03/24/00	57	0	04/10/00	57	96
EC8	11/25/98	0	56	07/21/99	UA	56	03/24/00	40	56	04/10/00	40	100
EC9	11/25/98	UA	77	07/21/99	UA	77	03/24/00	100	77	04/10/00	100	100
EC10	02/04/99	50	33	07/21/99	UA	33	03/24/00	58	33	04/10/00	58	100
EC11	12/01/98	17	75	07/21/99	UA	75	03/24/00	42	75	04/10/00	42	100
EC12	12/01/98	100	100	12/01/98	100	100	03/24/00	100	100	04/10/00	100	90
EC13	12/02/98	43	0	07/21/99	UA	0	03/24/00	57	0	04/05/00	57	100
EC14	12/02/98	14	0	07/21/99	14	0	03/24/00	14	0	04/10/00	14	40
EC15	12/02/98	80	84	07/21/99	80	84	03/24/00	80	84	04/10/00	80	100
EC16	12/02/98	75	71	07/21/99	UA	86	03/24/00	100	86	04/10/00	100	100
EC17	12/02/98	0	0	07/21/99	0	0	03/24/00	0	0	04/10/00	0	0
EC18	02/04/99	25	67	07/21/99	25	67	03/24/00	25	67	04/10/00	25	67
EC19	11/24/98	33	33	07/21/99	33	50	03/24/00	33	50	04/10/00	33	100
EC20	02/04/99	67	50	07/21/99	67	100	03/24/00	67	100	04/10/00	67	100
EC21	06/11/99	33	0	07/21/99	33	0	03/24/00	33	0	04/10/00	33	0

Source: http://ocdx.usda.gov/, July 18, 1999; March 6, 2000; March 26, 2000; and May 16, 2000.
UA = Data unavailable * Actual data unavailable - based on no change from prior to subsequent reports.

Our analysis of the BMS as of May 16, 2000, disclosed numerous material discrepancies. Of the 21 benchmarks, the funding requested for 6 benchmarks exceeded the budgeted amount in excess of 23 percent. Additionally, one benchmark had no budgeted amount, and for two benchmarks that were 100 percent complete, NELDCDC had requested and received amounts that were less than 6 percent of the budgeted amount. Some examples of inconsistent and inaccurate benchmark data are as follows:

Benchmark EC5 - This benchmark was implemented to create jobs through business development and recruitment. Our review of the BMS data base indicated that the budgeted amount totaled $330,000, whereas, the amount requested and received totaled $914,578 (277 percent of budget), and the benchmark was 86 percent complete.

Benchmark EC11 - This benchmark was implemented to construct a recreation center and improve existing public parks. Our review of the BMS data base indicated that the budgeted amount totaled $3,685,000, the amount requested totaled $170,658 (5 percent of budget), and the amount received totaled $32,658 (1 percent of budget). However, this benchmark was shown as being 100 percent complete and the corresponding "tasks" were shown as being 42 percent complete.

Benchmark EC14 - This benchmark was implemented to build new single-family housing units. The BMS data base indicated that two of five houses (40 percent) had been built and the budgeted amount totaled $2,567,500, whereas, the amount requested and received totaled $382,500 (15 percent of budget).

Our review disclosed that only one house (20 percent of the projected five units) had been constructed at a cost of approximately $49,646. A NELDCDC official advised that the budgeted, requested, and received amounts were errors in reporting.

Benchmark EC15 - This benchmark implemented a housing rehabilitation program. The BMS data base indicated that 43 of the projected 43 (100 percent) houses had been rehabilitated and the budgeted amount totaled only $5,500, whereas, the amount requested totaled $909,267 (16,532 percent of budget) and the amount received totaled $717,267 (13,041 percent of budget). Additionally, this benchmark was shown as being 100 percent complete. However, the corresponding "tasks" were shown as being only 80 percent complete.

Our review disclosed that 62 houses (144 percent of the projected 43 units) had been rehabilitated at a cost of approximately $394,494. A NELDCDC official advised that the budgeted, requested, and received amounts were errors in reporting.

The above-cited examples indicate that there were substantial differences among: (1) the amounts budgeted, requested, and received, (2) approximate costs, and (3) projected and actual units of output. In addition, there were inconsistencies between extent of completion of the benchmarks and extent of completion of the corresponding "tasks." The May 16, 2000, report indicated that of the 10 benchmarks that were 100 percent complete, 8 had corresponding “tasks” which ranged from 25 to 80 percent complete. (The status of completion of the benchmark is directly related to (and contingent upon) the completion of the supporting tasks. Therefore, if the "tasks" were less than 100 percent complete, generally, the benchmark itself would be less than 100 percent complete.) These data should have been updated to more accurately reflect the financial profiles and the progress of these eight benchmarks.

In addition to the conditions cited above, an OCD assessment of the NELDCDC 1998 annual narrative progress report disclosed that the benchmarks needed to be updated, and that progress appearing in the narrative annual report was not documented in the online BMS. This OCD assessment and the results of our audit denote a persistent and continuing problem with NELDCDC’s compliance with the BMS reporting requirements.

A NELDCDC officer advised that the lack of (timely) training, little knowledge of the reporting requirements, changing definitions of report fields, difficulty in obtaining data from community entities, and input errors were the likely causes of these discrepancies. This official further advised that information regarding the availability of a BMS instruction manual or the monthly reporting requirement has not been distributed to NELDCDC. Additionally, this official advised that a desk officer from OCD, Washington, D.C., performed a management review on August 15, 2000, without once mentioning the status of their benchmarks.

Even though the BMS has provided for direct online access for both Rural Development and the local EC’s since 1998, a Rural Development area office official advised that area office personnel were not trained on the online BMS until the OCD training conference in September 1999. Documentation provided by this official indicates the NELDCDC officer cited above was a speaker at this 1999 conference; and that the BMS, including Version 3 of the Instruction Manual for the Community Development Management System, dated September 1999, was covered during the conference.

This Rural Development area office official also advised that the area office had done little, if anything, during the past several years to monitor benchmark progress or the validity of NELDCDC’s BMS input data. However, Rural Development’s plan for the future is for area office personnel to receive funding data from the various divisions that are to be compared with the BMS data entered by NELDCDC. But for now, there is not much they can do.

The Rural Development State Office provided a list of seven meetings that their staff conducted with NELDCDC on benchmark topics during the period of February 10, 1998, to August 15, 2000. However Rural Development did not provide copies of actual trip reports or other formal documents detailing the actions taken during these meetings or the resultant accomplishments.

The OCD's assessment of NELDCDC's Annual Narrative 1998 progress report and our review of more recent data indicate and/or confirm that aged, inaccurate, and/or inconsistent data in NELDCDC's benchmarks have been a continuing problem since BMS inception in 1998. While we found no indication of fraudulent misuse of funds during our review, inaccurate and outdated funding and progress reports adversely impact the benchmark management decision-making process, and subjects the EC programs to the potential for waste and abuse.

RECOMMENDATION NO. 1

Provide the necessary training to NELDCDC personnel on the reporting requirements and effective utilization of the BMS.

Agency Response

In order to provide balance to the report and explain the actions the Rural Development officials have taken, they provided a detailed history of their efforts with NELDCDC to improve the accuracy of the data contained in the BMS. As evidence of their success, they quoted from a management control review report of Louisiana issued by OCD, and dated August 13-16, 2000. It said that through its consistent support, the Louisiana Rural Development State Office has made the NELDCDC EC online BMS a model for other communities to follow. They also stated that Version 4 of the Instruction Manual for the Community Development Benchmark Management System was issued June 2000. This version no longer requires that EZ/EC "must" update their BMS monthly, but states the EZ/EC "should" update them monthly. They concluded that OIG used an out dated version of the instruction manual to conduct the audit.

In conclusion, they stated that efforts would be made to increase the opportunities for NELDCDC to network with the Rural Development State Office and field staff for the purpose of refining the information contained in the existing benchmarks. If acceptable with NELDCDC, the Rural Development State Office will conduct a formal training session in a classroom-style format to provide individualized training to the appropriate staff of NELDCDC. The training will ensure that NELDCDC staff have a better understanding of the technical aspects of the computer program that is the foundation of the BMS, as well as the broad guidelines established by OCD for the development and maintenance of their specific benchmarks.

OIG Position

We acknowledge that the State office and field staff have made considerable efforts to assist NELDCDC. However, we believe that by stating OIG used outdated instructions and quoting the positive comments contained in the management control review report, dated August 13-16, 2000, the State office mischaracterized the seriousness of NELDCDC's problem in reporting inaccurate and outdated information in the BMS. Though not quoted by the State in its response to the draft audit report, the management control review report also stated that NELDCDC needed to regularly update its benchmarks and directed the State to continue its assistance to NELDCDC on revising the information contained in their BMS to ensure compliance with the August 31, 2000, deadline for the annual benchmark report. This comment indicates the accuracy and completeness of data in the BMS was still a problem in August 2000. We reviewed the BMS as of May 16, 2000. At this time, instructions for updating the BMS did require monthly updates. If Rural Development no longer encourages NELDCDC to update the BMS monthly, the reliability and usefulness of the data contained therein will only deteriorate further.

Notwithstanding their points of disagreement, State officials outlined an effective corrective action plan. To accept a management decision, the State office needs to provide a data by which it will complete the proposed training.

RECOMMENDATION NO. 2

Ensure that NELDCDC officials accurately document both benchmark funding and progress, and timely input these data into the BMS at the required intervals.

Agency Response

Rural Development officials continued in their response to this recommendation as in Recommendation No. 1 to express the view that the BMS does not need to be updated monthly because of the use of the word "should" instead of "must." They also stated "OIG determines the online benchmark management system is designed to serve as a comprehensive method of providing complete fiscal accountability to Congress, the White House, and the public; however, the BMS is in fact a simple tool for reporting progress in implementing the strategic plan."

Further, they stated the Rural Development State Office and field staff have already established a system of communication and cooperation to ensure that all projects that are coordinated through NELDCDC and funded by USDA Rural Development are accurately reflected in the online BMS. The inclusion of all Rural Development funded projects in the EC's benchmarks has and will continue to be an unconditional prerequisite for approval and obligation of program funds.

Finally, they said efforts would be increased to ensure that other projects and activities that are not funded through USDA Rural Development programs would be accurately reflected in NELDCDC's BMS. However, the ultimate responsibility for including such projects in the BMS rests with the EC's board of directors and executive staff, and to the extent that SSBG funds are involved, the State Title XX Administering Agency.

OIG Position

We conclude from Rural Development officials' comments that because the June 2000, Version 4, Instruction Manual for the Community Development Benchmark Management System uses the word "should," they believe the information in the BMS does not need to be currently maintained. We disagree. The above-referenced instruction manual emphasizes the importance of maintaining a current BMS. The manual states in the quick reference guide section: "The Benchmark reports can serve as a valuable public relations tool if you keep the information contained in the benchmarks current." Another reference states: "Each community needs to identify one person who will be responsible for updating the information in the system each month." Finally, the manual states on page 17: "We strongly suggest that every community update its benchmarks on a monthly basis." The manual goes on to state that: "Communities that do not update their benchmarks on a monthly basis will risk losing eligibility for USDA Rural Development earmarked funding and OCD letters of support for grant applications." Thus, for the BMS to function effectively, we believe it must be currently maintained.

State officials also misstated our comments regarding the BMS. We did not state the BMS was designed to serve as a comprehensive method of providing complete fiscal accountability to Congress, the White House, and the public. We stated the BMS was designed to demonstrate accountability to Congress, the White House and the public. This statement is a quote from the Instruction Manual for the Community Development Management System.

Further, State officials in outlining their corrective action plan indicated that they would increase their efforts to ensure projects and activities not funded through USDA Rural Development would be accurately reflected in the BMS. They stated they already had a system of communication and cooperation to ensure projects funded through USDA were accurately reflected in the BMS. We disagree. Benchmark EC15 (Housing Rehabilitation) was funded in part with USDA Rural Development funds. Our audit showed the BMS inaccurately reported the number of houses rehabilitated and the cost to perform the work.

To accept a management decision, Rural Development officials need to outline a corrective action plan for ensuring the accurate and timely reporting of program accomplishments and all funding in the BMS. The plan needs to specify a date by which it will be fully functioning.

RECOMMENDATION NO. 3

Take the necessary action to withhold program funding if the entity continues to not comply fully with the BMS reporting requirements.

Agency Response

Rural Development officials in their response point out that language in the Instruction Manual for the Community Development Benchmark Management System which states that communities that do not update their benchmarks on a monthly basis will be considered for revocation of their EZ/EC status is not supported by 7 CFR 25.405.

OIG Position

We have removed the language from our recommendation that is not supported by 7 CFR 25.405. However, since the Instruction Manuel for the Community Development Benchmark Management System provides for withholding of funds, Rural Development officials still need to explain what action they will take to withhold program funds if NELDCDC does not comply fully with BMS reporting requirements.

FINDING NO. 2

BUDGETARY AND PERFORMANCE ACTIVITY REPORTING REQUIREMENTS WERE NOT FOLLOWED

The NELDCDC did not file annual budgetary reports for EC-earmarked IRP projects or performance activity reports for EC-earmarked RBEG-Micro loan projects, and the related quarterly financial status reports were consistently inaccurate. As a result, the basic requirements for program accountability (e.g., complete, accurate, and current disclosure of the financial results of each USDA-sponsored project or program[7]) were compromised. Noncompliance with these basic requirements resulted in misstatement of program accomplishments and could result in program abuse and fraudulent misuse of program funds.

[7] 7 CFR 3015.61, November 10, 1981.

For EC-earmarked IRP reporting, a June 17, 1996, Rural Development letter to NELDCDC states that the intermediary will provide quarterly reports and annual audits and budgets to Rural Development in accordance with Farmers Home Administration (FmHA) Rural Development instructions. An elective change in Rural Development instructions, as of April 13, 1998, eliminated the requirements for narrative progress reports and converted the requirements for quarterly reports to semiannual reports when at least 90 percent of the agency IRP loan funds have been advanced to ultimate recipients. This required conversion from quarterly reports to semiannual reports is not yet applicable to NELDCDC.

For RBEG-Micro loan reporting, a March 1, 1996, Rural Development letter to NELDCDC cited the reporting requirements as stipulated in FmHA Rural Development instructions, which included a quarterly financial status report, a quarterly project performance activity report, and the particular information that should be contained in the project performance report. Additionally, the March 1, 1996, letter instructed NELDCDC to fully comply with the Federal regulations as prescribed in 7 CFR 3015.

Following are the details of the reporting deficiencies, as applicable to the EC-earmarked IRP and RBEG-Micro Loan Program.

EC-EARMARKED IRP REPORTING

- **Annual Proposed Budgets Not Submitted to Rural Development**

  Although NELDCDC received an EC-earmarked IRP funding authorization of $1 million in 1997, and actual funding totaling $773,086 during the period of July 25, 1997, through July 7, 1999, NELDCDC has never filed an annual proposed budget to Rural Development, as required by program regulations. The intermediary must submit an annual budget of proposed administrative costs for agency approval.[8] Because NELDCDC did not submit these budgets, its ability to effectively manage its EC operations and Rural Development's ability to provide the operational oversight prescribed by Federal regulations were negated.

- **Inaccurate Lending Activity Data Reported to Rural Development**

  The quarterly reports submitted to Rural Development, Form RD 1951-4, Report of IRP/RDLF Lending Activity, with attachments, have been consistently inaccurate since inception of the EC program at NELDCDC. Examples of key discrepancies are as follows. (See Table 1.2.)

[8] Rural Development Instructions 4274-D §4274.332(b)(2), February 6, 1998.

(1) Interest earned, as disclosed on the end-of-year reports for calendar years 1997, 1998, and 1999, differed from interest earned, as disclosed on the corresponding bank statements in amounts ranging from $219 to $3,642.

(2) For several reporting periods, the report fields "loans disbursed-report period," "loans disbursed to date," and "amount of IRP loan-report period" contained incorrect data.

(3) For 5 of the 10 reports, common report fields such as "report period" and "date" were consistently inaccurate. The "report period" did not show the quarterly period for which the report was prepared and the "date" did not show the date the report was prepared.

(4) NELDCDC officials advised that job creation figures submitted as estimates by the IRP loan applicants are reported as actual. Therefore, without reassessment and updates, there is no assurance of the accuracy of any of these figures after the loans are approved and closed. Our onsite verification of the job creation figures for 2 of the 10 active IRP recipients disclosed that the figures reported for the quarter ending December 31, 1999, were inflated by approximately 170 percent for 1 of the 2 recipients and 400 percent for the other. Additionally, interviews with NELDCDC officials revealed another loan recipient showing 30 resultant jobs on the same quarterly report had gone out of business prior to the ending date of the quarterly report.

Inaccuracies of these key data cause the entire series of reports to be laden with errors to such a degree that the utility of the entire report sequence is ambiguous at best. Table 1.2 depicts the frequency and magnitude of these inaccuracies.

Table 1.2 - Selected IRP (Form RD-1951-4) Reporting Inaccuracies

Period End Date	Deposit Interest at Year End ($)		Loans Disbursed Report Period ($)		Loans Disbursed to Date ($)		Amt of IRP Loan Report Period ($)	
	*Report	**Actual	*Report	**Actual	*Report	**Actual	*Report	**Actual
12/31/1997	6.001	6.220	225.000	0			520.086	0
03/31/1998			225.000	0			520.086	0
12/31/1998	13.316	14.550			733.086	693.000	45.000	75.000
03/31/1999					763.086	723.000	30.000	0
06/30/1999					798.086	758.000	35.000	0
09/30/1999					798.086	758.000	0	10.000
12/31/1999	17.452	21.094						

Ten reports were filed during the period of inception to the quarter ending 12/31/99. The data for the seven reporting periods listed above are depicted to illustrate reporting errors. Column blanks indicate no discrepancies.
* Source: Quarterly form RD 1951-4
** Source: Monthly bank statements

The NELDCDC officials advised that the form RD 1951-4 reports were prepared by a contract revolving loan fund manager and that they were not sure how the manager arrived at the job creation numbers. These officials also advised that NELDCDC had recently hired a loan manager and that this new NELDCDC employee would assume the IRP reporting responsibilities after training. They believe assigning the responsibility to an in-house employee will alleviate most, if not all, of the above (and similar) discrepancies.

RBEG – MICRO LOAN PROGRAM REPORTING

From inception, May 1, 1996, to March 31, 2000, NELDCDC did not file any of the required project performance activity reports, and information reported on 10 of the forms SF-269, Financial Status Reports, is inaccurate. These performance reports would have reported a comparison of actual accomplishments to period objectives, reasons why objectives were not met, unusual problems incurred, and objectives for the next reporting period.[9] Report field "outlays-this period" is incorrect on report form SF-269 filed for the quarters ending September 30, 1997; December 31, 1997; December 31, 1998; and December 31, 1999. Similarly, report field "outlays-cumulative" is incorrect on all 10 forms SF-69 filed beginning with the quarter ending September 30, 1997.

[9] FmHA Instruction 1942-G, Attachment 1, page 7, §A(II)(J), August 20, 1992.

The purpose stated in 7 CFR 25 for the required reporting is, in conjunction with onsite reviews, to provide data by which USDA can assess EZ/EC compliance with their strategic plan and to provide a basis on which USDA can report on the effectiveness of the EZ/EC program.[10] By not filing any of the required performance activity reports and filing financial status reports replete with erroneous data, NELDCDC, through its contribution to data corruption, has diminished the USDA's ability to effectively accomplish its oversight function. Continued assessment of the EZ/EC program on the basis of erroneous data could have a long-term detrimental effect on future funding as well as the continuation of the EZ/EC program.

RECOMMENDATION NO. 4

Provide the responsible NELDCDC personnel with the necessary training to ensure full compliance with the basic requirements for program accountability.

Agency Response

Rural Development officials in their response identified two prior training sessions, March 18, 1998, and May 2, 2000. However, they did not provide details regarding the nature of the training. They also provided 17 pieces of correspondence that had been sent over the past 3 years (1998 – 2000) advising NELDCDC of or requesting additional information pertaining to IRP activity. Further, they indicated they would continue to train personnel to ensure full compliance with their requirements.

OIG Position

We can accept a management decision when Rural Development officials provide the details of the May 2, 2000, training and outline the nature of future training plans and the timeframe for implementation.

RECOMMENDATION NO. 5

Closely monitor and test the accuracy of all NELDCDC annual budgetary and performance activity reports. If discrepancies are noted, Rural Development should timely follow up with responsible NELDCDC officials and obtain a resolution.

[10] 7 CFR 25.400, March 8, 1995.

Agency Response

Rural Development officials indicated they would closely monitor and test the accuracy of all reports, annual budgets, and performance activity reports. They also agreed to provide assistance and/or training to the responsible NELDCDC officials as necessary. Further, they listed 13 pieces of correspondence that asked NELDCDC officials for budgetary and performance activity report information.

OIG Position

We accept the management decision.

CHAPTER 2	**CONTROLS OVER HOUSING PRESERVATION, REPAIR, AND IMPROVEMENT OPERATIONS NEED STRENGTHENING**

The NELDCDC housing repairs and improvements under HPG, RHAG, and SSBG were generally performed in a less than workmanlike manner; the execution of contracts, performance of inspections, and payment to contractors did not fully comply with the overall requirements of the respective granting authorities; and certain individual homeowner case files did not fully support the total reported cost of repairs and improvements. These conditions were due, in part, to the enabling provisions of the EZ/EC Program legislation, disparities in the operating procedures, a lack of adequate administration of the overall initiative by NELDCDC, and a lack of adequate oversight by Rural Development. These conditions resulted in substandard repairs, safety hazards, program abuse, and widespread criticism of the NELDCDC EC housing initiative. Additionally, they resulted in questionable costs totaling $89,936 for repairs of the 11 properties reviewed.

Title XIII of the Act is the statutory authority for EZ/EC Programs. The legislation confers upon rural distressed American communities the opportunity to take effective action to create jobs and opportunities. The program is unique in that it relies upon the participating communities' own approaches and strategic plans for improvement. In addition, the program fosters partnerships between a variety of social service and economic resources, including those available through Federal and State programs, private and nonprofit organizations, and others.

There were three funding sources for the NELDCDC EC housing initiative (HPG, RHAG, and SSBG), and two sets of operating procedures (HPG and RHAG). Although SSBG was the principal source of funding for this initiative, there were no housing-specific operating procedures for SSBG funds.

There were substantial disparities between the NELDCDC housing-specific operating procedures as applicable to: (1) execution of contracts for repairs and improvements, (2) funding limitations per individual housing unit, (3) levels of responsibility (e.g. either Rural Development and/or NELDCDC) for work supervision, (4) number, frequency, and level of responsibility for inspections, and (5) payment to building contractors. Additionally, these procedures were not EC-program specific, and multi-source funding (e.g., HPG/RHAG, HPG/RHAG/SSBG, etc.) of certain repair and improvement projects compounded the management problems created by the disparities in operating procedures.

The following table (2.1) summarizes the provisions of each of the funding sources for the NELDCDC housing initiative:

Table 2.1: Housing Program Criteria by Funding Source

CRITERIA	FUNDING SOURCE		
	*HPG	**RHAG	***SSBG
Low income	YES	NO	N/A
Very low income	YES	YES	N/A
Owner/occupant	YES	YES	N/A
Age requirement	NO	62 or older	N/A
Address health, safety and well-being of occupant	YES	YES	N/A
Address structural integrity or long-term	YES	NO	N/A
Funding limit	NO	$7,500	N/A
Written contract	NO	Recommended	N/A
Preconstruction conference	NO	YES	N/A
Responsible for work supervision	Grantee	Grantor	N/A
INSPECTION REQUIREMENTS			
Frequency	One	Multiple	N/A
Code violations (technical inspections)	NO	NO	N/A
Performance of inspections	Disinterested third party	Loan approval official or qualified third party	N/A
Rural Development responsibility	Spot check jobs and files	Preconstruction conference and inspections	N/A
Work satisfaction before final payment	YES	YES	N/A

* RD Instruction 1944-N, September 1, 1993.
** 7 CFR 3550, December 23, 1996; Handbook-1-3550, Section 6, May 28, 1998.
*** HHS, EZ/EC SSBG Questions and Answers, February 6, 1996.

FINDING NO. 3

REHABILITATION, REPAIRS, INSPECTIONS, AND PAYMENTS TO CONTRACTORS NOT IN COMPLIANCE WITH PROGRAM REGULATIONS, POLICIES AND PROCEDURES

Rehabilitation, repairs and improvements of 8 of the 11 HPG, RHAG, and/or SSBG funded projects that we reviewed were not performed in a workmanlike manner. Additionally, neither Rural Development nor disinterested third-party inspectors performed final inspections of the repairs and improvements prior to final payment to the contractors, and certain individual homeowner case files did not contain the necessary documentation to fully support the reported cost of repairs and improvements to the dwellings. These conditions resulted in questionable costs totaling $89,936 for repairs of the 11 properties reviewed. (See exhibit E – Summary of Exceptions Noted in NELDCDC's Housing Rehabilitation and Repair Initiative.)

As indicated in table 2.2, NELDCDC rehabilitated, repaired, and improved 62 dwellings during the period 1996 through 1999, with reported materials and labor costs totaling $394,494. We reviewed 11 (18 percent) of the 62 dwellings with costs totaling $148,940 (38 percent).

Table 2.2: Distribution of Federal Funds to the NELDCDC Housing Initiative

FUNDING SOURCE	UNIVERSE		AUDIT SAMPLE	
	No. UNITS	*FUNDING AMT.	No. UNITS	**FUNDING AMT.
HPG	6	$ 55,073	3	$ 45,972
RHAG	0	0	0	0
SSBG	45	196,477	3	21,526
HPG/RHAG	7	71,278	1	11,248
HPG/SSBG	2	34,809	2	32,662
RHAG/SSBG	1	16,489	1	16,889
HPG/RHAG/SSBG	1	20,368	1	20,643
TOTAL	**62**	**$ 394.494**	**11**	**$ 148.940**

* ESTIMATE: Different funding amounts reported on source documents
SOURCE: Recipients of Housing Assistance from NELDCDC (1996-1999), NELDCDC Quarterly Performance Report, 7/13/99
** Best available data: totals from IRS Forms 1099-MISC, Miscellaneous Income, and verified invoice logs where available; otherwise, from NELDCDC Quarterly reports

Of the 11 projects reviewed, 3 received only HPG funding and 3 others received only SSBG funds. The five remaining projects received various combinations of HPG, RHAG, and/or SSBG funding. The three projects with portions of RHAG funding were to have been inspected by Rural Development or a qualified third party, and the seven projects with total or partial HPG funding were to have been inspected by a disinterested (non-NELDCDC) third party. Each inspection for the RHAG and HPG-funded projects was to have been completed and all repair defects corrected prior to final payment to the contractor. There were no specific criteria for inspections of the three SSBG-only projects.

We recognize that licensed contractors are not required for EC housing projects). However, this practice contributed to less than workmanlike repairs on 8 of the 11 sample properties, and the untimely and undocumented inspections resulted in repair defects being unresolved prior to making final payments to the contractors. Additionally, nine of the homeowners were dissatisfied with the work performed.

The less than workmanlike repairs found during our review of the following property (Homeowner A) are typical of those found for the remaining seven properties. (See exhibit F.)

Homeowner A – This homeowner applied for EC housing assistance on July 17, 1996. In response to the homeowner's application, Rural Development personnel and several area contractors inspected the property. The inspection disclosed the need for extensive repairs to bring the dwelling up to appropriate standards. On the basis of this disclosure, Rural Development determined that it was not feasible to repair the dwelling and recommended that the homeowner apply for a FmHA Section 502 loan to build a new house. The homeowner applied on April 21, 1997. However, credit problems affected his eligibility and his application was reportedly withdrawn.

Following the above-cited proceedings, the homeowner made additional pleas to NELDCDC for assistance. In response, (notwithstanding the Rural Development determination) NELDCDC authorized the homeowner for emergency repairs totaling $3,181 in SSBG funds.

The homeowner, NELDCDC, and a contractor entered into contracts to perform the emergency repairs. However, there was no formal documentation and no cost estimates of the work to be performed. The homeowner's file contained an unidentified, unsigned, and undated document which indicated that repairs would be made to: (1) the foundation, including leveling, and replacement of deteriorated sills and floor joists, and (2) the front bedroom, including new ceiling tile and trim at ceiling, and repair of wall separation, including paneling to match existing.

During the period August 10, 1998, to January 15, 1999, the work was performed, and the contractor was paid. However, there was no documentation of the results of inspections and disposition of repair defects prior to payment to the contractor. Subsequent to the completion of the work, the homeowner expressed dissatisfaction in an interview with local and regional media representatives. In addition, he consulted with Congressional and regional media representatives. During these proceedings, the local and regional media severely criticized the NELDCDC EC programs, with special focus on the housing initiative.

Our inspection of the dwelling disclosed that the same conditions that were to have been corrected through emergency repairs continue to exist, e.g., the foundation is settling, resulting in additional wall separation; and the newly replaced ceiling is falling down.

There are no specific requirements for emergency repairs and inspections of SSBG-funded EZ/EC housing projects. However, the NELDCDC memorandum of agreement requires the EC to fully comply with the Act, 7 CFR 25, SSBG statutory and regulatory requirements, and the strategic plan. These criteria provide for proper expenditure and full accountability of EC loan and grant funds. Contrary to these criteria, NELDCDC provided assistance to repair a dwelling that Rural Development had determined was not repairable. Additionally, NELDCDC did not ensure proper and timely disposition of the above-cited deficiencies prior to payment to the contractors. Therefore, the propriety of the total amount of assistance to this homeowner ($3,181) is questionable.

NELDCDC officials advised substantially as follows:

(1) Rural Development area office officials performed the initial needs assessments and inspections of the RHAG funded projects.

(2) A disinterested third party inspector, under contract with NELDCDC, performed the initial needs assessments and inspections of HPG and SSBG-funded projects. This contractor is qualified to perform all types of inspections, including electrical, gas, and plumbing.

(3) Generally, the housing contractors were experienced and qualified to perform the repairs and improvements.

(4) In the interest of accountability, security, job creation, and training, NELDCDC purchased and stored all building materials and made distribution to the contractors on an as-needed basis.

(5) A NELDCDC officer made a limited number of visits to the project sites; but rendered authorizing signatures on all requests for payments to contractors.

Rural Development area office officials advised substantially as follows:

(1) For RHAG funded projects, the Rural Development area office documents and approves the initial assessment of needed repairs, with input from NELDCDC. The RHAG needs-assessment serves as basis for bids for the work to be done, and the accepted bid (signed by the contractor) represents the total estimated cost of the repairs. (The total estimated cost includes all materials, workmanship, permits, fees, etc.)

(2) For RHAG-funded projects, the Rural Development area office enters into contract with the homeowner for the total job (the work to be performed), as stipulated in the accepted bid. However, the maximum amount of RHAG funding, as stipulated in the contract with the homeowner, is $7,500. (Our review of three RHAG-funded projects disclosed that all costs over and above the $7,500 RHAG limitation were funded by HPG and/or SSBG.)

(3) The Rural Development area office has no control over the total amount of funds spent on the NELDCDC housing repair projects (source of funding notwithstanding). Therefore, no attempt is made to assess the propriety of total cost of the repairs.

(4) The accepted bid (on which the contract is based) should represent the total estimated cost of repairs; however, it does not. During final inspections of the RHAG-funded repair projects, Rural Development area officials discovered that the contractor provided only labor, and that NELDCDC provided the materials, permits, fees, etc.

(5) The Rural Development area office performs all inspections of repairs and improvements, as required by program regulations, including technical inspections (electrical, gas, and plumbing). None of the area officials who performed the inspections were licensed electricians, plumbers, etc., and there was no assurance that licensed technicians had inspected the cited repair projects, as needed.

(6) For the three sample RHAG cases (homeowners B, E, and H), the Rural Development area office was not aware that NELDCDC had made final payments to the contractors prior to final inspections by Rural Development or a third party inspector.

(7) For HPG-funded projects, the Rural Development area office is only required to spot-check the repair projects for program compliance

and not for construction compliance or code violations. However, if HPG-funded projects also received RHAG funding, all repairs are inspected under RHAG inspection provisions.

(8) HPG-funded projects require a third-party inspection prior to final payment to the contractor and the grantees are required to certify their compliance with these inspections in the quarterly reports. Our review of NELDCDC's quarterly performance reports for the periods October 1998 to December 1998, and April 1999 to June 1999, disclosed that neither the NELDCDC officer nor Rural Development signed the certification. Further, there was no evidence of Rural Development State Office followup to obtain the certifications.

(9) The area officials agreed with the facts as presented for homeowner A.

The overall objective of the EC housing initiative includes provisions to repair and rehabilitate housing owned and occupied by very low and low-income individuals. The repairs are to remove identified health and safety hazards and render the dwelling more accessible and useable for household members with disabilities. However, without legally binding contracts, workmanlike efforts by the contractors, timely and full-scope inspections by qualified inspectors, timely and proper disposition of all defects noted during inspections, and effective oversight by Rural Development, the overall objective of the EC housing initiative will not be accomplished. Additionally, these deficiencies resulted in adverse publicity by local and regional media, and in the 11 cases reviewed, the overall objective was compromised.

RECOMMENDATION NO. 6

Provide the necessary technical support to the NELDCDC staff, and closely monitor the NELDCDC housing initiative to ensure full compliance with established EC housing guidelines. If NELDCDC does not comply with these guidelines, withhold all future EZ/EC-earmarked housing initiative funding.

Agency Response

Rural Development officials indicated that during their prior review of the HPG program they did not note any problems with recipient files or units. They indicated that Administrative Notice No. 3533 (1944-N), issued April 19, 2000, provided additional guidance and clarification of servicing issues within the HPG program. This notice requires reviews of the recipient files several times throughout the term of the grant. They also indicated that NELDCDC has not received additional HPG funds since the initial grant.

OIG Position

We can accept a management decision when Rural Development officials provide the schedule of planned reviews.

RECOMMENDATION NO. 7

Review the cases cited in exhibit E, assess the conditions surrounding the repair defects that were to have been addressed under contract, and take the necessary action to have them corrected.

Agency Response

Rural Development officials provided a detailed history of their involvement with the housing program at NELDCDC and their understanding of program requirements. They indicated that the exceptions noted in the audit report were the responsibility of the NELDCDC. In their response to Recommendation No. 8 they also stated that they did not have authority in the Section 504 Grant program to make repairs on defective workmanship.

OIG Position

Since Rural Development has oversight responsibility for the EC, it is not the intent of our recommendation to have Rural Development correct the defects, but to see that the defects are corrected. We can accept a management decision when Rural Development officials outline a specific corrective action plan and a timeframe for completion.

FINDING NO. 4

EXECUTION OF CONTRACTS FOR HOUSING REHABILITATION AND REPAIRS NEEDS IMPROVEMENT

In each of the 11 cases reviewed, the contracts for housing rehabilitation and repairs were not sufficiently documented. Specifically, there were inconsistencies: (1) between type contract designations as stipulated in the Rural Development/ homeowner contracts and the contractor/ homeowner contracts, (2) within the contractor/homeowner contract, and (3) between the terms of the contract, as applicable to labor and materials, and work actually performed. Additionally, the contracts were not supported by officially executed bids and needs assessments (plans and specifications); there were discrepancies in the stipulations of contractor payment intervals; and there were no specifically defined intervals and scope of inspections. As a result, the contracts were not legally binding and fully supportive of the reported project costs. (See exhibit E for a summary of exceptions noted for each of the 11 sample cases.)

For two of the three RHAG-funded projects included in our sample (exhibit E, homeowners B and E), Rural Development executed form FmHA 1924-6, Construction Contract, with the homeowner, and NELDCDC and the contractor each executed a contract with the same homeowner, all for the same repair project. For the third RHAG-funded project (exhibit E, homeowner H), Rural Development executed form FmHA 1924-6 with NELDCDC, which acted as the contractor for this project. The form FmHA 1924-6 stipulated: (1) the type-contract (e.g., labor and materials), (2) work to be performed, (3) frequency of payments (one lump sum upon acceptance by the owner and Rural Development of all work required under the contract), (4) inspections, (5) completion date, and (6) warranty requirements. However, for all three homeowners there were discrepancies between the type-contract designation and the documented needs assessment and estimated costs. The estimated costs stipulated in the Rural Development needs assessment did not appear sufficient to provide for both labor and materials, e.g., labor and materials costs exceeded the estimates for the three homeowners by 150 to 275 percent. Additionally, the initial needs assessments for the three homeowners (work to be performed) were not incorporated into the contracts (it was a handwritten addendum), there were no specifically defined intervals and parameters for inspections, and in each of the three cited cases, the contractors were paid in installments instead of one lump sum as required by form FmHA 1924-6.

For the eight HPG and/or SSBG-funded projects included in our sample (exhibit E, homeowners A, C, D, F, G, I, J, and K), NELDCDC and the contractor each executed contracts with the homeowners. Program procedures did not require Rural Development to execute contracts for HPG and/or SSBG-funded projects. With the exception of: (1) frequency of payments, (2) inspections, and (3) warranty requirements, these two contracts (Contract Between Homeowner and NELDCDC and Building Contractor's Agreement) contained stipulations and documentation of the work to be performed similar to those cited in form FmHA 1924-6. The contracts for HPG and SSBG-funded projects provided for payments to be made to the contractors in up to three installments with the number of installments determined by the monetary value of the contracts. Additionally, the contracts for the eight homeowners were completely void of provisions for inspections and warranty requirements. Further, for all eight homeowners, there were contradictions in the Contractor's agreement as to the type-contract negotiated, e.g., labor only vs. labor and materials. The NELDCDC purchased and stored all building materials and made distributions to all contractors on an as-needed basis. Therefore, NELDCDC builders' contracts for RHAG, HPG, and SSBG-funded rehabilitation, repairs, and improvements (including Rural Development contract form FmHA 1924-6) were for labor only. Additionally, the frequency of contractor payments on three of the eight HPG and/or SSBG-funded sample projects exceeded either the maximum number of installments allowable or the number of installments allowed based on the monetary value of the contracts.

The above-cited disparities, especially as applicable to the type-contract, provisions for inspections, and payment to contractors, adversely impacted the EC housing contract management process and exposed the housing initiative to potential for program abuse. (See Finding No. 3.)

RECOMMENDATION NO. 8

Provide the necessary technical support to NELDCDC staff to provide for the uniform execution of all contracts for EC housing repairs, improvements, and inspections.

Agency Response

Rural Development officials stated that execution of documents, inspections, etc., for the Section 504 Grant program is established by 7 CFR 3550, subpart C, section 504 Origination, and other Rural Development instructions. Any guidelines established, other than those cited by current instructions, will have to be developed on the National level.

OIG Position

Because of the serious nature of the repair defects noted during the audit and the negative media publicity surrounding NELDCDC's administration of the housing repair initiative, we continue to recommend that Rural Development officials provide technical support for uniform execution of all contracts for EC housing repairs and improvements. In order to reach a management decision, please provide a corrective action plan outlining technical support that will be provided to the EC and the timeframe for implementation.

CHAPTER 3	BENEFITS FROM TWO EC-EARMARKED IRP PROJECTS DID NOT SUFFICIENTLY ACCRUE TO RESIDENTS OF THE DESIGNATED EC BOUNDARIES

FINDING NO 5

The NELDCDC approved and funded two EZ/EC-earmarked IRP loans totaling $155,000 to projects that did not provide the requisite 75 percent minimum benefits to residents within the designated EC boundaries. This condition was due, in part, to NELDCDC basing its approval actions on a Rural Development approved revision of the NELDCDC workplan and to Rural Development not adequately reviewing the ultimate recipients' loan applications and business plans. The Rural Development's approved revision of the NELDCDC workplan did not specifically address the issue of level of benefits to residents of the designated EC boundaries. As a result, the two ineligible loans totaling $155,000 were approved and funded. These two loans have outstanding balances totaling $122,722.

The EZ/EC guidelines contained in Rural Development unnumbered letters dated April 30, 1999, and January 14, 2000, stipulate, in part, that earmarked funds will be used for projects identified in the EZ/EC strategic plan and benchmark documents, provided at least 75 percent of the benefits of the projects will be received by residents within the EZ/EC census tract boundaries. Although these letters were released after the three questioned EZ/EC-earmarked IRP loans were closed, OCD officials advised that the above-cited guidelines were in effect as of the loan closing dates.

The NELDCDC memorandum of agreement, dated June 2, 1996, indicates its EC boundaries are census tracts 9601, 9602, 9603, and 9604. All four tracts are located exclusively within Madison Parish. Furthermore, the strategic plan and all benchmark documents submitted by NELDCDC and approved by USDA were directed toward Madison Parish. Therefore, for a NELDCDC EC project to be eligible for EZ/EC-earmarked IRP funding, 75 percent of its benefits must accrue to the residents of the designated Madison Parish EC boundaries (e.g., census tracts 9601, 9602, 9603, and 9604).

The IRP guidelines require the intermediary (NELDCDC) to obtain Rural Development concurrence before final approval and funding of any proposed loan to an ultimate recipient. The process to gain concurrence from the agency requires the intermediary to certify that, in addition to other things, the proposed ultimate recipient is eligible for the loan, the proposed loan is for eligible purposes, and the proposed loan complies with all applicable statutes and regulations. An additional requirement of the intermediary is to provide copies of sufficient material to allow the agency to determine the location, nature, purpose, and scope of the project being financed.[11]

NELDCDC was approved for EC-earmarked IRP funding totaling $1 million. As of February 22, 2000, IRP loans totaling $758,000 have been made to 10 ultimate recipients with business ventures in entertainment, food service, lumber, manufacturing and medical service. (See exhibit G.)

Details of the exceptions noted are as follows:

Loan No. 1 – As of the date of application, May 20, 1998, this ultimate recipient was located and doing business in East Carroll Parish (Sondheimer), Louisiana (adjacent to the NELDCDC designated EC boundaries). The application clearly indicated that the applicant's business was located in East Carroll Parish. However, notwithstanding, Rural Development concurred and NELDCDC approved the application and disbursed $125,000 to the ultimate recipient in July 1998. During our visit to the business site, we confirmed that the recipient was doing business at the Sondheimer location.

The company manufacturers tree stands for hunters that are sold nationwide through a network of 500 distributors. Projected sales revenue for the year 2000 is $500,000.

This ultimate recipient employed a total of 15 full-time and part-time employees in 1998, and 13 in 1999. However, only three of these employees were residents of the NELDCDC-designated EC boundaries. Based upon the recipient's total number of employees during 1998 and 1999, the benefit to the NELDCDC EC was 20 and 23 percent, respectively; and based on total salaries paid for the same period, the benefit to the EC was 20 and 25 percent, respectively. Since confirmed and measurable benefits to the EC residents were considerably below the requisite 75 percent, and no other benefits to the residents of the EC were apparent, this $125,000 EZ/EC-earmarked IRP loan was improper. As of December 5, 1999, the borrower's outstanding indebtedness was approximately $95,590.

Loan No. 2 – As of the date of application, April 30, 1998, this ultimate recipient's office was located in Madison Parish (Tallulah), Louisiana, within the NELDCDC designated EC boundaries. However, the application clearly indicated that the applicant's company was formed to organize and/or produce Broadway-type plays at the Monroe, Louisiana, Civic Center. The Monroe Civic Center is located in Ouachita Parish, Louisiana, approximately 50 miles west of Madison Parish. The Vicksburg, Mississippi, Convention Center was also listed in the application as a potential concert site. There was no mention of plans

[11] RD Instruction 4274-D §4274.361(b)(4)(ii, iv), February 6, 1998.

for productions within the designated EC boundaries. Notwithstanding these conditions, Rural Development concurred and NELDCDC approved the application and disbursed $30,000 to the ultimate recipient in September 1998. This loan was rescheduled in July 1999, and we have identified it as loan number 3.

The ultimate recipient advised that most of the company's work is done in New York, New York. Therefore, the company does not have a need for additional staff in the NELDCDC EC area. The ultimate recipient further stated that the company's only source of income is ticket sales and that approximately 1 percent of the sales was made to residents of the NELDCDC designated EC boundary, approximately 30 percent to residents of West Monroe, and approximately 69 percent to residents of Monroe. Tickets sell for $40 to $45 each. The company has organized seven plays in the Monroe, Louisiana, area at an approximate total cost of $210,000, and one in the EC designated boundary at an approximate cost of $15,000. The company has yet to make a profit, but with attendance at 1,200 to 1,300 per play, it can break even on a per-play basis.

Job creation and ticket sales are the only significant measurable benefit factors associated with this company. With only one employee and approximately 1 percent of ticket sales within the EC boundaries, the confirmed and measurable benefits to the EC residents were considerably below the requisite 75 percent. Considering no other benefits to the EC were apparent, this $30,000 EZ/EC-earmarked IRP loan was improper. As of March 2000, the outstanding indebtedness of this loan was approximately $27,132.

The NELDCDC officials advised that they had not been informed of the 75 percent criteria relating to EZ/EC-earmarked IRP loans, e.g., they had not received copies and were unfamiliar with the provisions of the above-cited unnumbered letters, dated April 30, 1999, and January 14, 2000, or any prior dated letters. These officials further advised that they were relying on a revision to the NELDCDC workplan, approved by Rural Development on April 13, 1998, that allowed for the approval of up to 25 percent of its EZ/EC-earmarked IRP loans outside the designated EC boundaries. The revision indicated that "NELDCDC will be able to make loans to projects in parishes adjoining Madison Parish and which may impact on Madison Parish residents, provided such loans do not exceed 25% of the total Revolving Loan Fund." However, there was no specific reference to the level of benefits that were to have accrued to the residents of the designated EC boundaries.

We concur with NELDCDC's interpretation of this revised workplan as applicable to the percent of loans that it could make outside the designated EC boundaries of Madison Parish. However, the unnumbered letters referred to above stipulate, in part, that "at least 75 percent of the benefits of the projects will be received by residents" of Madison Parish. Furthermore, since the purpose of the EZ/EC is to provide benefit to the residents of its approved geographic area in accordance with its strategic plan, loans to recipients that do not enhance the approved area decrease the availability of funds to accomplish the intended purpose of the EZ/EC. Additionally, agency regulations state that noncompliance with the benchmarks and strategic plan is basis for revocation of the EC designation.[12]

A Rural Development area office official responsible for the EZ/EC program advised that the area office has nothing to do with NELDCDC's IRP program except insuring the correct paperwork is present in the package before it is forwarded to the State office. Further, they have no knowledge of the 75 percent benefit criteria for EZ/EC projects and have not received any of the unnumbered letters regarding the EZ/EC initiative.

A Rural Development State Office official rebuffed NELDCDC's comments regarding not having received notification of the EZ/EC Program 75 percent benefit criteria. Further, this official indicated Rural Development would provide documentation to substantiate NELDCDC's notification. However, Rural Development did not provide verification of the distribution of these criteria to NELDCDC, but did make the following statement. "The Scopes of Work for all projects funded reflect the appropriate benefits requirements for residents within the designated boundaries." No documentation was attached to support this statement.

The August 30, 1999, letter from the Louisiana 5th District Congressman to the Louisiana Rural Development State Director included allegations of loans or grants to organizations outside the designated EC area, including one case outside the State at four locations and of a grant to produce a theatrical production in Monroe.

As indicated above, our review confirmed the allegations of loans to organizations outside the designated EC boundaries, and in one case, to an entity for theatrical productions in Monroe, Louisiana. (See exhibit G for a summary of the NELDCDC EZ/EC-earmarked IRP lending activities.)

RECOMMENDATION NO. 9

Timely disseminate EC policy to all appropriate Rural Development officials and EC lead entities, then follow up to ensure receipt, understanding, and compliance by all responsible parties.

[12] Title 7 CFR 25.403(a)(2) & (3), March 8, 1995.

Agency Response

Rural Development officials indicated they would work with the officials at NELDCDC, as well as the program support staff of Rural Development, to timely disseminate EC policy, and follow up to ensure receipt, understanding, and compliance.

OIG Position

We accept the management decision.

RECOMMENDATION NO. 10

Consult with the Office of the General Counsel to determine what actions can be taken to collect the remainder of the $155,000 in improper loans (approximately $122,722 as of date of audit) provided to two EC-earmarked IRP ultimate recipients.

Agency Response

Rural Development officials stated that it was their recommendation to continue with both loans as the one project came within the EZ/EC boundaries and the other project within 25 percent outside the EZ/EC boundaries. Further, they said OCD, Washington, D.C., has concurred in this recommendation.

OIG Position

We do not accept Rural Development officials' justification for continuation with the loans. Public Law 103-66 establishing the EZ/EC states that grant funds are to be used for activities that benefit residents of the area for which the grant is made.

Rural Development officials said Loan No. 1 was approved as being in the 25 percent outside-designated EZ/EC boundaries. However, they provided no evidence that Rural Development regulations allow 25 percent of the loans to be made outside the EZ/EC boundaries. We believe the State office officials have misunderstood National policy on this matter. Also, their claim that at the time of approval, the EC certification stated benefits were within the EC is not correct. Based on information Rural Development officials provided in their response to our draft report (Attachment 34), a NELDCDC official certified that funds would be used for a project that is/will be located in an eligible rural area. The audit showed the business was not located within the EC boundaries and only 20 to 23 percent of the benefits of the loan accrued to residents of the EC. Clearly, for this loan, the benefits accruing to residents of the EC are not in keeping with the intent of the law.

Regarding Loan No. 2, Rural Development officials said 100 percent of benefits went to residents of the EC because the business was located in the EC and the employees were all located within the designated EC boundaries. We agree the headquarters for the business was located within the EC boundaries; however, only one employee was located within the EC. All others were contracted for out of New York. Further, the productions were performed at the Monroe Civic Center, about 50 miles east of the EC.

Regarding their statement that OCD's February 21, 2001, letter supports their interpretation of the guidelines and OCD agrees with their eligibility determination, we disagree with their interpretation. The letter states that the requirement that 75 percent of the funds be used to serve the residents in the EC is a guideline. It says it is not a set in stone rule and it is to be interpreted broadly to ensure that projects that will be helpful to people living within or just outside the specific tracts will be considered. Notwithstanding this statement, we do not believe the policy can be so broadly interpreted as to approve projects which accrue as little as 20 percent benefit to the residents of the EC.

Based on the State's response, we modified the recommendation. In order to accept a management decision, please consult with the Office of the General Counsel to determine what actions can be taken to recover the balance of the unauthorized loans.

RECOMMENDATION NO. 11

Strengthen the controls over the application review and approval process at the EC and Rural Development State Office levels, and ensure that benefits accrue to residents of the designated EC boundaries commensurate with the requirements of EC program regulations.

Agency Response

Rural Development officials stated that the staff in the State office review loans for eligibility and environmental requirements. This process will be reviewed, strengthened and closely monitored to ensure we continue compliance with EC programs and regulations and Rural Development national guidelines and instructions.

OIG Position

We accept the management decision.

CHAPTER 4	**NELDCDC ADMINISTRATIVE OFFICE SPACE RENTAL PAYMENTS EXCEEDED ALLOWABLE COSTS**

FINDING NO. 6

Since April 1997, NELDCDC rental payments for administrative office space have exceeded the limits of allowable costs by approximately $15,732 for the 36-month period ending March 31, 2000. This condition exists because NELDCDC rents the space from a for-profit corporation controlled by a NELDCDC officer and they did not consider the requirements of OMB Circular A-122 when establishing the rent amount. Additionally, Rural Development did not assess the propriety of the established rental costs. As a result, the funds were diverted from proper program uses.

Title 7 CFR 3015 defines allowable cost as the maximum amount of money a recipient is entitled to receive under Federal cost principles. Further, these regulations identify OMB Circular A-122 as the authority for determining the allowable costs of activities conducted by nonprofit organizations under grants. Since NELDCDC is a Louisiana nonprofit corporation, it is subject to the provisions of OMB Circular A-122.

The OMB Circular A-122 stipulates, in part, rental costs under less-than-arms-length leases are allowable only up to the amount that would be allowed had title to the property vested in the organization (i.e., depreciation or use allowance, maintenance, taxes, and insurance). Interest costs are excluded unless the asset was acquired after June 1, 1998, and is used in support of sponsored agreements. Further, this circular defines a less-than-arms-length lease as a lease under which one party to the lease agreement is able to control or substantially influence the actions of the other.[13] Examples cited include lease agreements between organizations under common control through common officers, directors, or members.

Compensation for the use of buildings, other capital improvements, and equipment on hand may be made through use allowances at an annual rate not exceeding 2 percent of acquisition cost or depreciation based on acquisition cost. Both methods exclude the cost of land. Where the depreciation method is followed, the period of useful life established for the usable capital assets must take into consideration such factors as type of construction and the renewal and replacement policies followed for the individual items or classes of assets involved. The method of depreciation used to assign the cost of an asset to accounting periods shall reflect the pattern of consumption of the asset

[13] OMB Circular A-122, Attachment B, paragraph 46, June 1, 1998.

during its useful life. Adequate property records must support charges based on either of these two methods.[14]

The July 19, 1999, referral from the Louisiana Legislative Auditor to OIG, and the August 30, 1999, letter from the Louisiana 5th District Congressman to the Louisiana Rural Development State Director included an allegation that the EC rents office space from a NELDCDC officer's corporation. This allegation was confirmed; however, there is nothing improper about the rent transaction as long as the rent amount is determined in accordance with OMB Circular A-122. In this instance, it was not.

The NELDCDC has not established a corporate depreciation policy for its real property; therefore, the Internal Revenue Service (IRS) requirements will be followed. The IRS Publication 946, How to Depreciate Property, states, in part, the recovery period for nonresidential real property is 39 years for property placed in service after May 12, 1993. Table A-7a of this publication indicates the allowable depreciation rate for years 2 through 39 is 2.564 percent per year. Since the depreciation percentage is greater than the allowance percentage, depreciation is used to calculate the allowable cost.

For this less-than-arms-length lease transaction, allowable costs are calculated in accordance with OMB Circular A-122 as follows:

NOTE: The NELDCDC officials advised that various items of equipment/furnishings were included with the building but actual cost data have not been provided for these items.

Basis:	**REAL PROPERTY**
Total cost of property	$80,000
Less value of land	(10,000)
Valuation for depreciation	$70,000
Calculations:	
Depreciation (2.564%)	1,795
Maintenance	0
Taxes	631
Insurance	731
ANNUAL TOTAL	$ 3,157
MONTHLY TOTAL	$ 263

The amount calculated above is approximately $437 per month less than the $700 per month NELDCDC has been paying since April 1997. Therefore, NELDCDC has been paying rent in excess of the allowable cost for a period of 36 months. The total of this excess is approximately $15,732 as of March 31, 2000 (end of the audit fieldwork).

[14] OMB Circular A-122, Attachment B, paragraph 11, June 1, 1998.

The NELDCDC officials advised they did not take OMB Circular A-122 into consideration when they established the $700 per month rent. But, they believe the fact that NELDCDC did not pay rent for the first 2 years (1995 and 1996) is relevant to the current rent agreement and should be taken into consideration in these calculations. However, during our review, we were provided no documentation of a rental agreement for the period preceding April 1997. Additionally, no accrual of rental costs for any prior period was apparent. A decision by the cognizant parties to forgo a rental agreement and/or rental charges during the period prior to April 1997 resulted in the lack of a verifiable obligation to pay rent during this period. Therefore, this prior period has no relevance to the current rental agreement or the amount of excess rent that has been paid since the inception of the current agreement.

Rural Development officials advised that they were not aware of the OMB Circular A-122 limitations on less-than-arms-length lease transactions. They further advised that they have no involvement in NELDCDC administrative issues such as rent expense.

RECOMMENDATION NO. 12

Coordinate with the State passthrough agency (Department of Social Services, Office of Community Service) to recover the amount of rent paid to the NELDCDC officer's for-profit corporation in excess of the allowable cost per OMB Circular A-122, including any amount paid after the conclusion of audit fieldwork ending March 31, 2000.

Agency Response

Rural Development officials stated that the recommendation appears to be an issue that NELDCDC needs to address with the State pass-though agency for SSBG funds. There is not a cap on administrative costs, including rent, for SSBG funds.

The amount of rent should be based on what the market price per square foot is in the area. The EC should be paying market rate or less. As for the connection between EC staff and the owners of the building, this may breach the "arms length" policy. Further, they stated the Rural Development State office is responsible for assisting the EC in implementing the strategic plan and monitoring the use of Rural Development loans and grants. However, we do not have veto power over the EC drawing down funds for administrative costs. These funds are SSBG funds and are distributed through the State pass-though agency.

OIG Position

Rural Development officials' statement that rent should be based on the market price in the area is not consistent with OMB Circular A-122. When rental rates are based on less-than-arms-length leases, as they were at NELDCDC, rent expenses are allowable only up to the amount that would be allowed had title to the property vested in the organization (i.e., depreciation or use allowance).

Regarding the source of the funds used to pay rent, we understand that the funds may have been SSBG funds and that the State pass-though agency may have ultimate responsibility for recovering the questioned costs. However, because of Rural Development's oversight responsibilities and need to work with all agencies to facilitate the success of the EC, Rural Development should initiate action with the State pass-through agency to ensure the questioned costs are recovered and the rental agreement is corrected to comply with OMB Circular A-122.

In order to reach a management decision, please coordinate with the State passthrough agency to recover the excessive rental charges and adjust future rent payments.

RECOMMENDATION NO. 13

Coordinate with the State passthrough agency to ensure NELDCDC adjusts its future rent payments to the NELDCDC official's corporation to the allowable cost stipulated in OMB Circular A-122.

Agency Response

Again, this appears to be an issue that NELDCDC needs to address with the State pass-through agency for SSBG funds. Rural Development is responsible for assisting the EC in implementing the strategic plan and monitoring the use of Rural Development loan and grant funds. Rural Development does not control the drawing down of SSBG funds by the EC.

OIG Position

See response to Recommendation No. 12.

EXHIBIT A – SUMMARY OF MONETARY RESULTS

FINDING NUMBER	RECOMMENDATION NUMBER	DESCRIPTION	AMOUNT	CATEGORY
3	6	Improper payments to contractors	$ 89,936	Questioned Costs, No Recovery
5	10	Improper loans to ultimate recipients outside the designated EC boundaries	$122,722	Questioned Loans, Recovery Recommended
6	12	Unallowable rental costs	$ 15,732	Questioned Costs, Recovery Recommended
TOTAL			**$228,390**	

EXHIBIT B – ROUND I REPORTED FUNDING SOURCES FOR EZ/EC AREAS

FUNDING SOURCE	FUNDS REQUESTED	FUNDS RECEIVED
FEDERAL GOVERNMENT		
EZ/EC SSBG	$ 118,151,373	$ 128,996,657
USDA – Rural Development (RD)	313,047,152	280,556,602
USDA – Forest Service	1,061,755	906,471
USDA – Natural Resources & Conservation Service	55,946	55,946
USDA – Other	20,516,300	10,012,300
Department of Health & Human Services	13,419,290	14,523,177
Department of Treasury (DOT)	2,684,738	776,232
Department of Commerce (DOC)– EDA	13,404,510	15,301,510
Department of Labor (DOL)	31,308,938	13,659,297
Department of Housing & Urban Development (HUD)	37,551,534	25,425,789
AmeriCorps Volunteers in Service to America (VISTA)	508,020	1,398,020
Department of Defense	700,000	-
Department of Education	12,831,711	26,497,051
Department of Energy	-	1,820,000
Department of Interior	3,170,000	20,000
Department of Justice	100,590,281	3,028,149
Department of Transportation	4,758,260	5,345,812
Environmental Protection Agency	13,360,000	8,579,500
Est: United States Army Corp of Engineers	27,000,000	900,000
Federal Emergency Management Administration	10,119,681	10,629,714
Small Business Administration	2,065,500	2,065,500
Tennessee Valley Authority	-	775,000
Other/Unspecified Federal Agency	86,195,264	17,065,728
TOTAL FEDERAL GOVERNMENT	812,500,253	568,338,455
STATE GOVERNMENT	146,877,034	166,058,874
LOCAL OR REGIONAL GOVERNMENT	71,473,222	58,321,022
PRIVATE SECTOR	1,075,554,370	199,302,192
NONPROFIT	9,405,638	9,512,862
OTHER	28,330,892	7,894,580
TOTAL ROUND I EZ/EC FUNDING	**$ 2.144.141.409**	**$ 1.009.427.985**
ROUND I **EC** FUNDING SUBTOTAL	$ 1.948.948.565	$ 755.692.248
ROUND I **EZ** FUNDING SUBTOTAL	$ 195.192.844	$ 253.735.737

Source: http://ocdx.usda.gov/DetailReport.asp, June 19, 2000 (data not verified by audit).

EXHIBIT C – TOTAL NELDCDC REPORTED FUNDING FOR THE ENTERPRISE COMMUNITY

RECEIVING ENTITY	FUNDING SOURCE	FUNDS REQUESTED	FUNDS RECEIVED
	FEDERAL GOVERNMENT		
NELDCDC	EZ/EC SSBG	$ 2,858,947*	$ 2,858,947*
NELDCDC	USDA - RD RBEG	723,020	723,020
NELDCDC	USDA - RD IRP	1,000,000	1,000,000
NELDCDC	USDA - RD HPG & 504	364,000	197,000
NELDCDC	HHS-Office of Community Service (OCS) HBCU	350,000	350,000
NELDCDC	HHS - OCS-Discretionary Grant Prog.	325,000	325,000
NELDCDC	DOL - CDFI Fund	600,000	50,000
	TOTAL NELDCDC FEDERAL FUNDING	6,220,967	5,503,967*
Community	USDA - RD Community Facilities	787,615*	787,615*
Community	USDA - RD Section 502	120,000*	120,000*
Community	USDA - RD Waste & Water	6,283,000*	6,283,000*
N/A	USDA - RD Business & Industry Loan	2,500,000*	-
Community	HHS – Administration on Children Youth & Family Services	240,000*	240,000*
Community	DOC - EDA Grant	1,800,000*	1,800,000*
Community	DOL - Workforce Training	400,000*	400,000*
Community	DOL - Youth Opportunity Grant	5,000,000*	5,000,000*
Community	HUD – Youthbuild	1,800,000*	1,800,000*
Volunteers	VISTA (AmeriCorps)	128,000*	128,000*
	TOTAL COMMUNITY/VOLUNTEERS FEDERAL FUNDING	19,058,615*	16,558,615*
	TOTAL FEDERAL GOVERNMENT	25,279,582*	22,062,582*
	TOTAL STATE GOVERNMENT	3,189,138*	3,164,138*
	TOTAL LOCAL/REGIONAL GOVERNMENT	7,307,600*	7,169,600*
	TOTAL PRIVATE SECTOR	3,644,000*	3,164,000*
	TOTAL NONPROFIT	336,923*	346,923*
****TOTAL FUNDING**		**$ 39.757.245***	**$ 35.907.245***

Source: http://ocdx.usda.gov/DetailReport.asp, May 16, 2000.
* Data not verified by audit. ** Rounding difference ($2); actual totals $39,757,243 and $35,907,243.

EXHIBIT D – NELDCDC BENCHMARKS AS OF MAY 16, 2000

B'MARK	BRIEF BENCHMARK DESCRIPTION	OUTPUT TO DATE	UNIT OF MEASURE	PERCENT COMP'D	SOURCE FED FUNDS	TOTAL FUNDS BUDGETED	TOTAL FUNDS REC'D	% OF BUDGET REC'D	FED % FUNDS REC'D
EC-1	Establish downtown revitalization program	21	# businesses attracted	84	USDA SSBG	$ 133,000	$ 138,226	104	58
EC-2	Establish farmer's market	1	# farmers markets created	100	USDA SSBG	$ 244,020	$ 237,183	97	94
EC-3	Establish a business incubator and micro-loan program	5	# loan funds established	33	HHS SSBG	$ 445,000	$ 367,500	83	97
EC-4	Small business loans	19	# loans given	76	USDA SSBG DOT	$ 2,706,000	$ 1,761,052	65	90
EC-5	Create jobs through business development	345	# job created	86	SSBG HHS USDA	$ 330,000	$ 914,578	277	91
EC-6	Support administration of the EC program	1	# administrative entities created	50	SSBG	-	$ 892,694		98
EC-7	Increase technology in schools, raise std. test scores & reduce drop-out rates	480	# participants	96	SSBG VISTA DOL HUD	$ 1,045,000	$ 8,123,708	777	96
EC-8	Provide access to Headstart for at-risk and low -income child.	60	# youth participating	100	HHS SSBG	$ 315,000	$ 263,789	84	100
EC-9	Establish healthcare forum & student assistance program	72	# healthcare providers trained	100	SSBG	$ 431,000	$ 268,554	62	31
EC-10	Increase police & Police programs	6	# programs	100	SSBG USDA	$ 759,000	$ 257,910	34	20
EC-11	Construct, improve recreation facilities	4	# new facilities	100	SSBG	$ 3,685,000	$ 32,658	1	63
EC-12	Develop youth recreation program	1,350	# youth participating	90	SSBG	$ 47,500	$ 154,468	325	87
EC-13	Establish historical museum	1	# new facilities	100	SSBG	$ 290,000	$ 12,200	4	59
EC-14	Build single family housing units	2	# houses constructed	40	SSBG USDA	$ 2,567,500	$ 382,500	15	40

B'MARK	BRIEF BENCHMARK DESCRIPTION	OUTPUT TO DATE	UNIT OF MEASURE	PERCENT COMP'D	SOURCE FED FUNDS	TOTAL FUNDS BUDGETED	TOTAL FUNDS REC'D	% OF BUDGET REC'D	FED % FUNDS REC'D
EC-15	Implement housing rehabilitation program	43	# houses rehabilitated	100	SSBG USDA	$ 5,500	$ 717,267	13,041	100
EC-16	Establish housing demolition and lot cleaning program	35	# houses demolished	100	SSBG	$ 70,500	$ 93,343	132	36
EC-17	Build multi-family residences	0	# units built	0		$ 751,500	-	-	-
EC-18	Develop water, sewer, drainage	2	# improved or new systems	67	USDA	$15,770,000	$13,130,615	83	50
EC-19	Build airport hangar	1	# airport hangars	100	USDA	$ 220,000	$ 220,000	100	15
EC-20	Develop, renovate Madison Parish Port Commission	2	# new facilities	100	USDA DOC	$ 8,093,000	$ 7,575,000	94	24
EC-21	Renovation plan for Madison Parish Courthouse	0	# facilities improved	0	USDA	$ 2,175,000	$ 364,000	17	100
TOTAL						**$40.083.520**	**$35.907.245**	**90**	**61**

Source: http://ocdx.usda.gov/DetailReport.asp, May 16, 2000 (data not verified by audit).

EXHIBIT E – SUMMARY OF EXCEPTIONS NOTED IN NELDCDC'S HOUSING REHABILITATION AND REPAIR INITIATIVE

SAMPLE HOMEOWNER	REPORTED FUNDING SOURCE	CONTRACTS (Note 1)	LESS THAN WORKMANLIKE REPAIRS	INSPECTIONS (Note 2)	CONTRACTOR PAYMENTS (Note 3)	COST (Note 4)	
						TOTAL	QUESTIONED
A	SSBG	a, b	YES	a, b, d	c	$ 3,181	$ 3,181
B	RHAG HPG	a, b, c, d	YES	d	a, b, c	$ 11,248	$ 7,327
C	HPG	a, b, c, d	YES	a, b	a, b, c	$ 15,279	$ 9,750
D	HPG	a, b, c, d	YES	a, b, c	a, b, c	$ 15,859	$ 8,630
E	RHAG HPG SSBG	a, b, c, d	YES	d	a, b, c	$ 20,643	$ 13,624
F	SSBG	a, b	YES	a, b	a, c	$ 5,879	$ 3,920
G	HPG SSBG	a, b, c, d	NO	a, b, c	a, b, c	$ 15,427	$ 5,900
H	RHAG SSBG	a, b, c, d	NO	d	a, b, c	$ 16,889	$ 13,907
I	HPG	a, b, c	YES	a, b, c, d	a, c	$ 14,834	$ 8,000
J	HPG SSBG	a, b, c	YES	a, b, c	a, c	$ 17,235	$ 8,150
K	SSBG	a, b, c	NO	a, b, c, d	a, c	$ 12,466	$ 7,547
TOTAL						**$148.940**	**$89.936**

Note 1: Contract Exceptions (a) Contract type (materials & labor versus labor only)
(b) Needs assessment and bid not an integral part of contract
(c) Total cost of project inconsistent with cost documented per contract and needs assessment
(d) Discrepancies between contract specified payment intervals and actual payment intervals

Note 2: Inspection Exceptions (a) No documentation of items inspected
(b) No documentation of inspection results
(c) Ineligible inspector
(d) Final inspection after final contractor payment

Note 3: Contractor Payment Exceptions (a) Inadequate documentation of work performed
(b) Payment intervals violated contract specifications
(c) Final payment without documented final inspection

Note 4: Cost (a) Best available data - cost amounts are from 1099's and verified invoice logs where available; otherwise, cost amounts are from NELDCDC quarterly reports.
(b) Questioned cost is labor cost only, except homeowner A. Homeowner A cost is total cost of repairs because the dwelling was deemed to be unrepairable before this cost was incurred.

EXHIBIT F – HOMEOWNERS FOR WHOM REPAIRS NOT PERFORMED IN WORKMANLIKE MANNER

Homeowner B - This homeowner received housing assistance totaling $11,248, which included RHAG and HPG funding. Therefore, the repairs and improvements were subject to inspection by Rural Development or a qualified third party.

The homeowner applied for assistance on June 22, 1998, and Rural Development approved the application and executed the initial needs assessment on June 22, 1998. The assessment disclosed a need for major repairs to the dwelling including: (1) leveling of floor through the installation of additional beams, piers, and concrete blocks, (2) electrical wiring, (3) installation of a vent-a-hood over the kitchen sink, and (4) installation of a faucet over the kitchen sink. The estimated costs were $7,500 (the RHAG grant limit), and payment to the contractor was to be in one lump sum. However, this cost estimate did not include the cost of materials.

Rural Development, NELDCDC, the homeowner and the contractor entered into contracts on September 28, 1998. Form FmHA 1924-6, Construction Contract, stipulated, in part, that the contractor would furnish materials and perform the work and that the payment would be in one lump sum for the whole contract, upon acceptance by the owner and Rural Development.

The homeowner's case file indicated that during the period October 30, 1998, to January 8, 1999, materials were purchased for $3,921, work was performed, and the contractors were paid a total of $7,327 in installments. However, neither Rural Development nor a qualified third party inspected the project and documented the results of the inspections prior to the final payment to the contractor, as required by RHAG regulations.

The contractor, a NELDCDC officer, the NELDCDC housing coordinator, and a NELDCDC contract inspector signed the payment/inspection request forms. However, there was no documentation to denote the details and results of the inspections. (The contract inspector was neither licensed by the State nor certified by one of four allowable building code administrator organizations. Also, except for the inspector's signatures on the payment/inspection request forms, there was no documentation of the results of the inspections.) Additionally, although the forms provided for homeowner signatures to denote authorization of payments to the contractors contingent upon inspections and concurrence by the public body, the homeowner signed none of the forms.

On April 1, 1999, approximately 3 months after the final payment to the contractor, the Rural Development area office performed its first inspection of the work performed during the period October 30, 1998, to January 8, 1999. The inspection disclosed seven significant deficiencies (including a breaker switch and a vent-a-hood that were not installed and a leak under the kitchen sink that was not repaired), and the inspector concluded that the repairs were 98 percent complete. However, the items of development (e.g., the items which were to have been inspected) were not listed. Therefore, although significant deficiencies were documented as being at variance with approved plans and specifications, there was no documentation of specifically which items were inspected.

On April 22, 1999, the Rural Development area office performed the second inspection of the work performed during the above-cited period. The items of development section of the form FmHA 1924-12 indicated that repairs were 99 percent complete and that "all deficiencies were completed except the leak under the sink and the breaker switch," as documented during the April 1, 1999, inspection.

There was no record of a third or final inspection of the property to ensure full compliance with the terms of the contract and to denote homeowner approval or acceptance of the work performed.

The Rural Development initial needs assessment and contract, dated June 22, 1998, included the installation of a vent-a-hood, a faucet at the kitchen sink, and electrical wiring. However, neither NELDCDC nor Rural Development identified and/or ensured proper and timely disposition of the above-cited deficiencies (each of which was cited in the needs assessment) prior to payment to the contractor. Additionally, neither Rural Development nor a qualified third party inspector performed the final inspection prior to payment to the contractor. Therefore, the propriety of payments to the contractor totaling $7,327 for rehabilitation and repairs to this dwelling is questionable.

Homeowner C - This homeowner received housing assistance totaling approximately $15,279. The assistance included HPG funding, but did not include RHAG funding. Therefore, the repairs and improvements were subject to inspection by a disinterested (non-NELDCDC employee) third party.

The homeowner completed a NELDCDC housing assessment survey (application for housing assistance) on August 15, 1997. Item 13 of the housing assessment survey indicated that the roof, bathroom, and kitchen needed repairs, and the house needed more windows. On September 17, 1998, the homeowner, NELDCDC, and a contractor entered into contracts to perform repairs of the homeowner's dwelling. The contracts stipulated, in part, that the homeowner would receive $7,500 in grant assistance from NELDCDC and would pay the contractor $7,500 for the performance of the work. However, there was no evidence of an official determination of repair needs and there was no documentation of the submission and acceptance of a formal bid from the contractor. The homeowner's file contained an unidentified, unsigned, and undated work specification bid form. This form disclosed a need for the following repairs to the dwelling: (1) repair the foundation, including leveling, replacement of deteriorated sills and floor joists, and repair of any flooring damaged by leveling, (2) replace deteriorated siding, (3) replace deteriorated exterior trim, (4) replace broken window glass and torn screens, (5) repair porch floor and ceiling, (6) replace roof, (7) repair rear entry, including door, storm door, and steps, (8) paint exterior of house and interior of bedrooms, (9) build kitchen closet for hot water heater, (10) install vent-a-hood (with cabinet), (11) replace damaged paneling/studs in bathroom, (12) replace or repair damaged plumbing, and (13) repair all electrical outlets/switches. The estimated cost for labor was $7,500.

On September 24, 1998, a change order (to the September 17, 1998, contract) was signed to build two closets (one in each bedroom), retexture and paint the ceiling throughout the entire house, and check the floor in the master bedroom (to consider installing floor tile). On

October 14, 1998, a change order that modified the September 24 change order was signed to install ceiling tile instead of painting the ceilings. The net result of these change orders was a $450 increase in labor cost.

The homeowner's case file indicated that during the period September 17, 1998, to January 15, 1999, materials were purchased for $5,529, work was performed, and the contractors were paid a total of $7,950 in five installments. However, a disinterested third party inspector did not inspect the project and document the results prior to the final payments to the contractors, as required by HPG regulations.

The payment/inspection request forms were signed by some combination (but not all) of the following individuals: the contractor, a NELDCDC officer, the NELDCDC housing coordinator, and the NELDCDC contract inspector. However, there was no documentation to denote the details of the inspections; and there was no indication of repair deficiencies. The NELDCDC contract inspector was neither licensed by the State nor certified by one of four allowable building code administrator organizations. Also, except for the inspector's signatures on the payment/inspection request forms, there was no documentation of the results of the inspections. Additionally, although the forms provided for homeowner signatures to denote authorization of payments to the contractors contingent upon inspections and concurrence by the public body, the homeowner signed none of the five forms.

On January 28, 1999 (approximately 2 weeks after final payment to the contractors under the original contract to provide labor for the repairs), the Rural Development area office attempted to spot-check the repairs that were made using HPG funds. However, the homeowner was not at home. Therefore, this one and only Rural Development HPG spot-check attempt was not completed.

On May 11, 1999, approximately 4 months after final payment to the original contractors and after the homeowner had contacted the Louisiana Governor's office of Rural Development, a NELDCDC officer wrote a letter to the homeowner acknowledging the homeowner's concerns about the original work. The letter indicated the following corrective repairs would be performed: (1) repair and stop the leak on the front half of the house, (2) replace two windows on the north side of the house, (3) replace (repair) all holes in the floors, (4) replace the back screen door, (5) kilt and paint the ceiling on the porch, and (6) add corner molding throughout the home as needed. On April 20, 1999, NELDCDC signed a labor-only contract in the amount of $1,800 for another contractor to perform this list of repairs. This contractor received full payment on May 28, 1999, despite the fact that two of the five conditions cited above continued to exist at the time of our inspection, and the remaining three were performed in a less than workmanlike manner.

Our inspection of the dwelling disclosed the following:

(1) The rear entry door and screen door were not properly fitted. (The entry door could hardly be opened or closed and the screen door had a gaping hole at the bottom.)

(2) Sections of the exterior of the house had not been painted after the second contractor installed new windows.

(3) Trim around the new windows was not securely attached to the house.

(4) There were holes in the interior walls around the new windows.

(5) Some cracks still existed in floors while others were patched with small scraps of wood scabbed over the existing floor.

(6) Bathroom paneling was loose or bulging.

(7) Additionally, the homeowner advised the vent-a-hood fell shortly after the contractors completed the job.

The work specification form and subsequent agreement with a second contractor listed several items to be repaired that were not completed at the time of our observations. NELDCDC did not identify and/or ensure proper and timely disposition of the above-cited deficiencies prior to payments to the contractors. In addition, a disinterested third party did not properly perform the final inspection prior to payment to the contractors. Therefore, the propriety of payments to the contractors totaling $9,750 for rehabilitation and repairs to this dwelling is questionable.

Homeowner D - This homeowner received housing assistance totaling approximately $15,859. The funding source for this assistance was exclusively HPG. Therefore, the repairs to this dwelling were subject to inspection by a disinterested third party (e.g., a non-NELDCDC staff member).

The homeowner and NELDCDC completed a housing assessment survey on April 20, 1998. Item 13 of the housing assessment survey indicated that the homeowner's bathroom; kitchen, porch, doors, roof, and steps needed repair.

On February 24, 1999, approximately 10 months after the homeowner's application for housing assistance, NELDCDC, the homeowner, and the contractor entered into contracts to perform repairs on the dwelling. The contracts stipulated, in part, that the homeowner would receive $7,000 in grant assistance and would pay the contractor $7,000 for the performance of the work. However, there was no evidence of an official determination of repair needs and there was no documentation of the submission and acceptance of a formal bid from the contractor who was to perform the repairs. The homeowner's file contained an unidentified, unsigned, undated, handwritten work specification form. This form indicated the following: (1) replace roof, (2) replace siding and damaged exterior trim, (3) replace window glass and screens as needed, (4) replace one wood window with new aluminum unit, (5) repair porch floor, install new screen door, and install new porch screen as needed, (6) install new steps at rear of kitchen, (7) install new 3/8 inch plywood floor, new floor tile, and new paneling throughout the house, (8) install new upper and lower kitchen cabinets, sink, vent-a-hood, and counter top, (9) install new vanity with faucet and new hot water heater (build closet for heater) in the bathroom, (10) install new breaker box with breakers and rewire house, (11) install new interior doors with privacy locks as needed, (12) check on installing and relocating a new septic tank, and (13) check new plumbing and lines for leaks. The estimated labor costs were $8,910.

The homeowner's casefile indicated that during the period February 24, 1999, to March 17, 1999, materials were purchased for $7,229, repairs were made, and the contractor was paid a total of $6,380 in four installments. However, there was no documentation of the details and results of the inspections and there was no evidence of a final inspection of the repairs by a disinterested third party prior to final payment to the contractor. Additionally, although the payment/inspection request provided for the homeowner's signatures to denote authorization of payments to the contractors, contingent upon inspections and concurrence by the public body, the homeowner did not sign the forms.

Subsequent to the final payment to the contractor for the work referred to above, the homeowner completed another housing assessment survey on April 12, 1999. Item 13 of the survey indicated that the homeowner requested a septic tank. There was no evidence of contracts between NELDCDC, the homeowner, and a contractor for the installation of a septic tank for this homeowner. Additionally, there was no evidence of an official determination of repair needs, and there was no documentation of the submission and acceptance of a formal bid from a contractor.

A payment/inspection request executed by NELDCDC officials on April 28, 1999, indicates that a contractor installed a new septic tank for the homeowner and was requesting payment of $2,250. The contractor's signature line was left blank and the homeowner's signature line was blocked with an informal note to the file. Further, it was not evident from our review of the casefile that the work was performed or (if performed) that inspections were performed prior to payment to the contractor.

During telephone conversations with a NELDCDC official and the contractor whose name appeared on the April 28, 1999, request for payment, we were advised that: (1) a new septic tank was installed, (2) the work was inspected by the local heath department authorities, and (3) the contractor had been paid. In response to our request, the contractor provided documentation that indicated a septic tank was installed, and that the contractor was paid $2,250.

Our inspection of the dwelling disclosed the following:

(1) The kitchen cabinets were installed at a height that was well beyond the homeowner's reach. (The homeowner had to stand in a chair to reach the doors and the first shelf.)

(2) A large crack (hole) was left in the floor of one closet. The ground could be seen from the inside of the closet.

(3) The bathroom was not wired for electric lights.

(4) A hole for an electric light had been cut in the utility room ceiling; however, a light had not been installed.

The homeowner's casefile was not sufficiently documented to validate the contracts and performance of the repairs and installation of the septic tank. Additionally, NELDCDC did not identify and ensure proper and timely disposition of the repair deficiencies, and a disinterested third party did not perform the final inspection of the repairs prior to the final payment to the contractor. Therefore, the propriety of the payments to the contractors, totaling $8,630 ($6,380 for repairs and $2,250 for the installation of the septic tank) is questionable.

Homeowners E - These homeowners received housing assistance totaling $20,643, which included RHAG, HPG, and SSBG funding. Therefore, the repairs and improvements were subject to inspection by Rural Development or a qualified third party.

The homeowners applied for assistance June 15, 1998, and Rural Development approved their application and executed the initial needs assessment on June 18, 1998. The assessment disclosed a need for major repairs to the dwelling, including (1) the foundation, (2) exterior doors, (3) framing, (4) flooring (including jacking and leveling, installation of new beams and floor joists, and floor covering), (5) electrical wiring, and (6) ceiling. The estimated cost was $7,500 (the RHAG limit). However, this cost estimate did not include the cost of materials.

Rural Development, NELDCDC, the homeowners, and the contractors entered into contracts during the period September 28, 1998, to October 6, 1998. Form FmHA 1924-6, Construction Contract, stipulated, in part, that the contractor would furnish materials and perform the work and that the payment would be in one lump sum for the whole contract, upon acceptance by the owner and Rural Development.

The homeowners' casefile indicated that during the period October 19, 1998, to December 14, 1998, materials were purchased for $7,019, work was performed, and the contractors were paid a total of $13,624 in installments. The total cost of the repairs, including labor and materials, was $20,643. However, neither Rural Development nor a qualified third-party inspector inspected the project and documented the results of the inspections prior to the final payments to the contractors, as required by RHAG regulations.

A contractor, a NELDCDC officer, a NELDCDC housing coordinator, and an NELDCDC contract inspector signed the majority of the payment/inspection request forms. However there was no documentation to denote the details and results of the inspections. The contract inspector was neither licensed by the State nor certified by one of four allowable building code administrator organizations. Also, except for the inspector's signatures on the payment/inspection request forms, there was no documentation of the results of the inspections. Additionally, although the forms provided for homeowner signatures to denote authorization of payments to the contractors contingent upon inspections and concurrence by the public body, the homeowners signed none of the forms.

On March 1, 1999, 2 ½ months after final payments to contractors under the original contracts, the Rural Development area office performed its one and only inspection of the work performed during the period October 19, 1998, to December 14, 1998. In the item of development section of the form FmHA 1924-12, Inspection Report, the Rural Development inspector indicated that repairs were 100 percent complete. However, the items of development (e.g., the items which were to have been inspected) were not listed. Therefore, there was no documentation of specifically which items were inspected. In addition, the "Date & No. of Inspection" and "This is Inspection Number" lines were left blank. In the next section of the report, which required itemization and description of significant conditions observed, the Rural Development inspector indicated, “Completed according to specifications.” Again, there was no documentation of the details of the results of the inspection and this section was not signed and dated. The “Final Inspection” section of the report was signed and dated by the Rural Development representative and signed (but not dated) by the homeowners.

On May 11, 1999, subsequent to the Rural Development final inspection on March 1, 1999, NELDCDC employed the services of a local contractor to install a breaker box at this dwelling to correct an electrical problem. As indicated above, electrical wiring was identified, as a problem during the Rural Development needs assessment; the problem was included in the September 28, 1998, contractor’s agreement between the homeowners and the contractor; and the contractor received final payment on November 24, 1998, denoting full compliance with the terms of the contract.

Our inspection of the dwelling disclosed the following:

(1) The front and rear storm doors were not properly cut and fitted, resulting in severe leaking around both doors. The homeowners attempted to correct the leaking problem by covering the cracks with duct tape. In response to the homeowner’s complaint, NELDCDC sent its housing supervisor, instead of the contractor who was paid to do the job, to the dwelling to correct the problem with the doors. However, the problem has persisted.

(2) The kitchen floor tile was cracked at the plywood seams and molding was missing.

(3) Ceiling tiles were sagging in one bedroom.

(4) The flooring in two bedrooms was not secure and not level. In addition, the homeowners advised that the contractor covered a hole in the floor of one bedroom with carpeting which a child fell through while visiting the homeowners.

(5) Also, the homeowners advised that the lights flickered when certain appliances, especially the clothes dryer, were turned on. (This occurred following the repairs in 1998 and continues today, although a new breaker box was installed in May 1999 in an attempt to correct the problem.)

The contract and Rural Development needs assessment, dated June 18, 1998, included the foundation, exterior doors, flooring, the ceiling, and electrical wiring. However, neither NELDCDC nor Rural Development identified and/or ensured proper and timely disposition of the above-cited deficiencies prior to payment to the contractor. Additionally: (1) neither the loan approval official (Rural Development) nor a qualified third party properly performed the final inspection prior to payment to the contractor, (2) there were no contracts in the homeowners casefile for three of the four contractors who were shown as having performed services and received payments totaling $4,350, and (3) payment/inspection request forms for payments totaling $2,213 to two contractors were not signed by the authorizing NELDCDC officer. An official with direct oversight of the housing initiative signed one of the two apparently improperly authorized payments in the amount of $1,263. Therefore, the propriety of payments to the contractors totaling $13,624 for rehabilitation and repairs to this dwelling is questionable.

Homeowner F - This homeowner received housing assistance totaling approximately $5,879. The funding source for this assistance was exclusively SSBG. Therefore, there were no specific criteria for the inspection of the repairs to this dwelling.

The homeowner completed an NELDCDC housing assessment survey on April 10, 1998. Item 13 of the housing assessment survey indicated that the homeowner's bathroom, roof, windows, water pipes and paneling needed repair. During the period September 18, 1998, to October 6, 1998, Rural Development, NELDCDC, the homeowner, and the contractors entered into contracts to repair the dwelling. The contracts stipulated, in part, that the homeowner would receive $3,520 in grant assistance and would pay the contractors $3,520 for the performance of the work. However, there was no evidence of an official determination of repair needs and there was no documentation of the submission and acceptance of a formal bid from the contractors who were to perform the repairs. The homeowner's file contained two unidentified, unsigned, undated work specification forms. These forms disclosed a need for the following repairs to the dwelling: (1) install new roof, (2) replace front door, install new front storm door, and repair storm door in kitchen, (3) replace damaged plywood in carport, (4) install new ceiling tile in kitchen, living room, and hallway, (5) install new ceiling tile and repair plumbing in hall bathroom, (6) repair light fixture and door in master bedroom, (7) replace ceiling tile, damaged wallboard and tile, install new tub surround and faucet, and repair floor, plumbing and door in master bath, (8) replace damaged door units throughout the house, (9) replace damaged ceiling tile and light fixture in second back bedroom, and (10) repair attic fan switch. The estimated cost for labor was $3,420. However, this cost estimate was not all-inclusive. As indicated above, the total was $5,879.

The homeowner's casefile indicated that during the period September 18, 1998, to December 7, 1998, materials were purchased for $1,959, work was performed, and the contractors were paid a total of $3,920 in installments. EZ/EC SSBG regulations are silent concerning criteria for housing preservation, repair and improvement. Therefore, there was no documentation to denote the details and results of the inspections. In addition, although the payment/inspection request forms provided for homeowner signatures to denote authorization of payments to the contractors contingent upon inspections and concurrence by the public body, the homeowner signed none of the four forms.

Our inspection of the dwelling disclosed the following:

(1) The front storm door was not installed properly (does not close properly).

(2) The doorbell that was removed to install the storm door was left hanging by the wires.

(3) The rear storm door trim was broken/splintered in several places during its removal and reinstallation.

(4) Additionally, the homeowner advised that a contractor removed two or three window screens for repair but did not return them. (These screens were missing at the time of our visit.)

We observed that 2 of the 10 items listed on the work specification forms had not been completed in a manner consistent with the intent of the document, e.g., the installation of the front storm door and repair of the rear storm door were not performed in a workmanlike manner.

As indicated above, there are no specific requirements for the inspection of SSBG-funded EZ/EC housing preservation, repair, and improvement projects. However, the NELDCDC memorandum of agreement requires the EC to comply fully with the Act, 7 CFR 25, SSBG statutory and regulatory requirement, and the strategic plan. These criteria provide for proper expenditure and full accountability of EC loan and grant funds. Therefore, the propriety of payments to the contractors, totaling $3,920 in the SSBG funded project is questionable.

Homeowners I - These homeowners received housing assistance totaling approximately $14,834. The funding source for this assistance was exclusively HPG. Therefore, the repairs to this dwelling were subject to inspection by a disinterested third party (e.g. a non-NELDCDC staff member).

The homeowners and NELDCDC completed a housing assessment survey (application for housing assistance) on September 15, 1998. Item 13 of the housing assessment survey indicated that the home's interior hall and upstairs needed sheetrock, paneling, and painting; and the exterior needed siding and roof repairs.

On February 24, 1999, approximately 5 months after the homeowners' application for housing assistance, NELDCDC, the homeowners, and the contractor entered into contracts to perform repairs on the dwelling. The contracts stipulated, in part, that the homeowners would receive $8,000 in grant assistance and would pay the contractor $8,000 for the performance of the work. There was no evidence of an official determination of repair needs, and there was no documentation of the submission and acceptance of a formal bid from the contractor who was to perform the repairs. However, the homeowners' file did contain several unidentified, unsigned, undated, handwritten scraps of paper listing various repair items. These lists indicated the following: (1) replace roof (including decking), (2) tear off carport even with the house, (3) install new ceiling tile in living room, kitchen, hall, and bedrooms, (4) install wafer board, ceiling tile and light fixtures in upstairs bedrooms, (5) install new exterior siding on each end of the house, and (6) add steps to the stairway.

The homeowners' casefile indicated that during the period February 24, 1999, to May 14, 1999, materials were purchased for $6,834, repairs were made, and the contractor was paid a total of $8,000 in four installments. However, there was no documentation of the details and results of the inspections, and there was no evidence of a final inspection of the repairs by a disinterested third party prior to final payment to the contractor. Additionally, although the payment/inspection request provided for the homeowners' signatures to denote authorization of payments to the contractors, contingent upon inspection and concurrence by the public body, the homeowners did not sign the forms.

Our inspection of the dwelling disclosed the following:

(1) Lights were left hanging by the wires.

(2) Corner molding was missing and/or broken in several rooms.

(3) Upstairs floor was spongy (inadequate floor joist).

(4) The homeowners advised that the contractor (laborers) broke several items of furniture, appliances, and toys.

The NELDCDC did not identify and ensure proper and timely disposition of the repair deficiencies nor ensure the contractor made restitution to the homeowners for the damaged personal property. Additionally, a disinterested third party did not perform the final inspection of the repairs prior to the final payment to the contractor. Therefore, the propriety of the payments to the contractor totaling $8,000 is questionable.

Homeowner J - This homeowner received housing assistance totaling approximately $17,235, which included HPG and SSBG funding. Therefore, the repairs and improvements were subject to inspection by a disinterested third party (e.g., a non-NELDCDC staff member).

The homeowner and NELDCDC completed a housing assessment survey (application for housing assistance) on September 24, 1998. Item 13 of the housing assessment survey indicated that the homeowner needed help on the roof, floors and back door.

On April 12, 1999, approximately 6 ½ months after the homeowner's application for housing assistance, NELDCDC, the homeowner, and the contractor entered into contracts to perform repairs on the dwelling. The contracts stipulated, in part, that the homeowner would receive $9,000 in grant assistance and would pay the contractor $9,000 for the performance of the work. There was no evidence of an official determination of repair needs, and there was no documentation of the submission and acceptance of a formal bid from the contractor who was to perform the repairs. However, the homeowner's file did contain an unidentified, unsigned, undated, typewritten list of various repair items. This list indicated the following: (1) replace roof, (2) replace broken windows, (3) replace damaged fascia, (4) replace damaged ceiling tile throughout the house, (5) repair floor and install new floor tile, (6) install new door units as needed, (7) remove existing kitchen cabinets and install new upper and lower cabinets, (8) install new vent-a-hood, (9) install new paneling, trim and paint as needed, (10) extensive bathroom renovations, (11) jack up and level foundation, and (12) check electrical outlets, switches, and light fixtures.

The homeowner's casefile indicated that during the period April 12, 1999, to June 3, 1999, materials were purchased for $9,085, repairs were made, and the contractor was paid a total of $8,150 in four installments. However, there was no documentation of the details and results of the inspections, and there was no evidence of a final inspection of the repairs by a disinterested third party prior to final payment to the contractor. Additionally, although the payment/inspection request provided for the homeowner's signatures to denote authorization of payments to the contractors, contingent upon inspections and concurrence by the public body, the homeowner did not sign the forms.

Our inspection of the dwelling disclosed the following (we were not allowed access to the interior):

(1) Front and rear entry doors cut too short.

(2) Wide crack between two sections of the roof (homeowner advised the roof leaked in the proximity of the crack).

(3) The homeowner advised that she requested roof turbines but did not receive them.

NELDCDC did not identify and ensure proper and timely disposition of the repair deficiencies. Additionally, a disinterested third party did not perform the final inspection of the repairs prior to the final payment to the contractor. Therefore, the propriety of the payments to the contractor totaling $8,150 is questionable.

EXHIBIT G – SUMMARY OF THE NELDCDC EC-EARMARKED IRP LENDING ACTIVITIES

*LOAN	**DATE	**AMOUNT	*PARISH	*BUSINESS	ELIGIBLE
4	09/29/1997	$112,500	Madison	Manufacturer	YES
5	09/23/1997	112,500	Madison	Medical Service	YES
1	07/10/1998	125,000	East Carroll	Manufacturer	NO
6	08/06/1998	150,000	Madison	Manufacturer	YES
2/3	09/14/1998	30,000	Madison	Entertainment	NO
7	08/31/1998	118,000	Madison	Manufacturer	YES
8	04/05/1999	25,000	Madison	Auto Service	YES
9	10/26/1998	45,000	Madison	Lumber	YES
10	02/12/1999	30,000	Madison	Food Service	YES
11	06/01/1999	10,000	Madison	Lumber	YES
TOTAL		**$758,000**			

* Source: NELDCDC loan files
** Source: Monthly bank statements

EXHIBIT H – AUDITEE RESPONSE TO DRAFT REPORT

USDA

United States Department of Agriculture
Rural Development

Rural Business-Cooperative Service • Rural Housing Service • Rural Utilities Service
3727 Government Street, Alexandria, LA 71302
(318) 473-7921 FAX (318) 473-7829

DATE: February 26, 2001

SUBJECT: Northeast Louisiana Delta Community Development Corporation 34099-4-Te

TO: Robert E. Gray
Regional Inspector General for Audit
USDA Office of Inspector General
Southwest Region – Audit
101 South Main Street, Suite 324
Temple, TX 76501

FROM: MICHAEL B. TAYLOR Karen G. Nardini
for
Acting State Director
Rural Development, Alexandria, Louisiana

In response to your January 12, 2001, memorandum, attached is Louisiana's response regarding the subject audit findings, recommendations, and corrective actions taken or planned.

Should you require additional information, please contact Karen Nardini, Administrative Programs Director, 318-473-7921.

Attachments

cc: Financial Management Division, Rural Development, Washington, DC
Director, Empowerment Division, Rural Development, Washington, DC

KEY RECOMMENDATIONS: We recommend that Rural Development: (1) provide the necessary training to NELDCDC personnel on the reporting requirements and effective use of the BMS, and ensure that NELDCDC officials accurately document project funding and progress on the BMS, (2) withhold NELDCDC's program funding and/or dedesignate their EC Program status if they do not comply with program requirements, (3) provide the responsible NELDCDC personnel with the necessary training to ensure full compliance with the basic requirements for program accountability, (4) monitor accuracy of all NELDCDC annual budgetary and performance activity reports and timely correct any discrepancies, (5) develop procedures and provide the necessary technical support to the NELDCDC staff to ensure the uniform execution of all contracts for EC housing repairs, improvements, and inspections, notwithstanding the source of funding for the individual projects, (6) correct the defective housing repairs, (7) collect the outstanding balance of the two improper EC earmarked IRP loans, (8) strengthen controls over the IRP approval process to ensure that future loans will benefit the EC residents at the requisite level, and (9) recover the excess rental payments and ensure future rent payments are in compliance with established criteria.

AGENCY RESPONSE: Louisiana Rural Development has provided technical assistance to NELDCDC in the proper maintenance of benchmarks since the initial designation of the Enterprise Community on December 31, 1994.

The nature of the strategic planning process, which includes the development and maintenance of benchmarking, has been an integral part of the EZ/EC Initiative. It is a fact that there are vast differences in the complexity of EZ/EC communities and their respective strategic plans upon which the designations were based. Accordingly, it is expected that there will be vast differences in the manner in which the communities develop and maintain their respective benchmarks. The differences are manifested in the variations of overall mission statements, as well as the goals, strategies, and diversity of the programs and tasks undertaken by each individual EZ/EC Community.

USDA Rural Development's Office of Community Development (OCD) administers the Empowerment Zones and Enterprise Communities program, and oversees the on-going operations of each EZ/EC community in assuring compliance with the conditions upon which the designation is based. One of the tools developed by OCD to assist communities in their post-designation activities is a Benchmark Management System (BMS) which helps communities track their progress in attaining the desired level of growth, prosperity and sustainability that is typically outlined in the initial strategic plan. Strategic planning looks at the big picture and helps a community decide what is important. However, "benchmarking" is defined as "the process of identifying measurable strategies, selecting

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indicators, setting targets for output, and tracking progress in meeting them."

The OCD publications as attachments were specifically developed as "guides" for the designated communities to follow in their community development process, to assure a balance between the three phases of strategic planning, implementation, and evaluation. The fact that the publications are referred to as "guides", as opposed to Rural Development Instructions or Regulations, is indicative of the very nature of flexibility with which the entire benchmark management system is expected to be developed and maintained by each designated community.

The concept of establishing benchmarks for use by an EZ/EC Community under OCD's guidelines allows for freedom of choice in a community's decisions about the goals and strategies that it selects for tracking its progress. As acknowledged by OCD, "Everything cannot be done at once, so divide the plan into several programs of work – a 10-year plan into five 2-year work programs." Communities are expected to utilize judgement in selecting projects that are based on the strategic plan, and which are focused, feasible, and measurable.

It is not mandated that each and every task associated with the operation of the community's non-profit organization and/or its lead entity be documented within the structure of the broad-based benchmark management system. Further, OCD addresses the general method for "Benchmark Review and Amendment" in the Guide as follows: "How and when will the community review its benchmarks? This review can be done at the same time that the strategic plan is reviewed (usually once a year)." On page 15 of the Guide, communities are advised to "Avoid revising your benchmarks every time something needs to be changed. An annual review cycle works well, except in special cases where there may be a new opportunity that requires a quick response. Constant benchmark changes may cause community members to lose interest in the planning process."

In addition, it should be emphasized that the Benchmark Management System developed by OCD for use within the scope of the EZ/EC Initiative, was not and is not designed to serve as a complete and accurate system of detailed financial record keeping, relative to the overall cash flow of the organization. OCD guidelines provide that a community should use the benchmark management system to account for funding from an outside source, in reporting the sources of funding, as well as technical assistance, and in-kind support and how the money was used on specific tasks and projects that are identified in the BMS. The allowance for flexibility in using the BMS to track funds as reflected in the OCD recommendation that "For reporting purposes of the USDA Empowerment

Zones/Enterprise Communities program, financial estimates and figures can be rounded to the nearest thousand."

In summary, the benchmark management system, which is derived from the traditional community development process that has been used for decades outside the parameters of the EZ/EC Initiative, is simply a method for the selection of a limited number of prioritized goals and strategies extracted from the strategic plan, which can be developed into feasible projects, given the time and financial constraints of the community. The diversity of each community, its leadership and resources will dictate the method by which the benchmark management system is developed and maintained. But at no point should the BMS be considered a replacement for the standardized set of financial statements, including cash flow analyses and historical performance reports, that the community is expected to maintain under State and Federal guidelines and in accordance with generally accepted accounting principles

On August 2, 1995, following the EC designation, a Memorandum of Agreement (MOA) was executed by the Enterprise Community, the Lead Entity, and representatives for the Federal Government (i.e. USDA Administrator for Rural Business and Cooperative Development) and the Governor of the State of Louisiana. The MOA outlined the specific responsibilities of the respective parties, placing a significant amount of responsibility on the State of Louisiana, as follows:

(1) "The State and the Enterprise Community will comply with the requirements of Title XIII, Subchapter C, Part I of the Omnibus Budget Reconciliation Act of 1993, and the regulations appearing at 7 C.F.R. part 25 and any future regulations.

(2) "The State and the Enterprise Community will comply with such further statutory, regulatory and contractual requirements as may be applicable to the receipt and expenditure of Social Services Block Grant (SSBG) funds, pursuant to Title XX of the Social Security Act, currently administered by the Department of Health and Human Services."

(3) "The State and the Enterprise Community will comply with all elements of USDA approved application for designation, including the strategic plan, submitted to USDA pursuant to 7 C.F.R part 25 (the "Strategic Plan") and all assurances, certifications, schedules or other submissions made in support of the Strategic Plan or of this Agreement."

(4) "The State and the Enterprise Community will submit with this Agreement documentation sufficient to identify baselines,

benchmarks, goals and timetables for the implementation of the Strategic Plan during the first two (2) years.

Finally, the MOA charges the State with full responsibility in the use of EZ/EC Title XX funds, in that the State will distribute the funds according to the directives of the Lead Entity, provided that such actions are consistent with the USDA approved Strategic Plan.

The HHS, USDA, and the States play key roles in administering the EZ/EC program. The HHS makes SSBG grants to the States, and the designated State agency obligates the grant funds and approves requests from the EZ's and EC's for the funding of specific benchmark projects. Inasmuch as the foregoing is an accurate statement regarding the role of the State in the EZ/EC program implementation, it follows that the State bears certain fundamental responsibilities for tracking the progress made by the Enterprise Community, as a condition for the distribution of SSBG funds.

Pursuant to directives from USDA OCD, each community shall develop a mutually agreeable arrangement with their Title XX Administering Agency for notification of revisions and updates to benchmarks. All benchmarks, baselines, activities, and schedules approved by the Enterprise Community after a full community participation process which must be documented and which may be further amended or supplemented from time to time, will be incorporated as a part of this Agreement upon the signing by all parties to this agreement of the benchmark documents.

The OCD memorandum dated September 11, 1998, replaced previous instructions (March 7, 1997 and May 9, 1997) and defined the role of State Governments, which have the opportunity to review and contribute to benchmarking. A state's signature to the MOA constitutes approval of the initial benchmarks as well as the process of amending both the benchmarks and the plan. The benchmark review process was not and is not intended to permit the federal or state government to exercise a "veto" power over local decisions. Each community shall develop a mutually agreeable arrangement with their Title XX Administering Agency for notification of revisions and additions to benchmarks. State governments should view the benchmark review process as an opportunity to identify technical assistance needs in the designated communities. It is the intention of the Federal government that the States serve as fiscal intermediaries for the EZ/EC SSBG grant.

In summary, as our response will reflect, the Agency will initiate immediately actions to increase training efforts to NELDCDC personnel in the areas of reporting and use of the BMS, proper accountability, annual budgetary reports, etc., as OIG has recommended. However, the Agency has proposed revised corrective actions relative to several recommendations and has provided all necessary documentation in support thereof.

The Executive Summary states the Louisiana Rural Development State Office was found to have provided ineffective monitoring of the EC and oversight functions. The terms of the Memorandum of Agreement (MOA), supplemented by specific OCD directives, mandated the primary roles of the State versus USDA Rural Development, and necessitated the ongoing participation and active involvement of the State in the maintenance of the benchmarking process. The Agency has demonstrated in the attached response all efforts made to fully comply with national guidelines set forth in administering the EC Program. As reflected in a Management Control Review Report of Louisiana issued by the Office of Community Development in Washington, DC, dated August 13-16, 2000, the Rural Development State Office in Louisiana, through its consistent support, has made the Northeast Louisiana Delta Enterprise Community benchmarks a model for other communities to follow. In several instances, the Agency has been cited for violating procedures and guidelines which either do not exist or are being interpreted differently by Rural Development and OIG. It appears several of the confirmed allegations centered around SSBG funds, over which Rural Development has no control, nor monitoring responsibility. There are two IRP loans cited in the report for which OIG is recommending the Agency collect the outstanding balance of the "improper loans". The Agency has provided documentation to support the fact that based on the Agency's interpretation of the guidelines, at both the State and National levels, both loans were indeed proper.

We respectfully request full consideration be given by OIG to the Agency's response to this report since we are of the opinion this could significantly impact the final report.

Rural Development's response to each of the thirteen recommendations contained in the Official Draft Audit Report follows:

FINDINGS AND RECOMMENDATIONS:

CHAPTER 1 - REPORT DATA OF BENCHMARK AND INDIVIDUAL PROGRAM ACTIVITIES DO NOT MEET AGENCY GUIDELINES FOR FREQUENCY, ACCURACY AND CONTENT

FINDING NO. 1 - BENCHMARK FUNDING AND PROGRESS DATA ARE INACCURATE, INCONSISTENT AND OUTDATED

RECOMMENDATION NO. 1: Provide the necessary training to NELDCDC personnel on the reporting requirements and effective utilization of the BMS

AGENCY RESPONSE: A key factor that was not addressed in the OIG review of the online Benchmark Management System (BMS) is the fact that the online system itself was designed to replace an earlier benchmark management system that was instituted in 1995 when the Round I EZ/EC Communities were first designated. The benchmark process started out as paper reports that were sent between the communities, the Rural Development State Office and OCD. This process was time consuming and difficult for all parties involved; it also did not allow communities to create reports to serve their own needs.

Because of the deficiencies in the initial benchmark system, OCD set out to recreate the process of monitoring benchmarks. The resulting online Benchmark Management System (BMS), created in 1998, was specifically designed to be flexible enough to accommodate community individuality, yet standardized enough for national reporting.

USDA required an initial set of benchmarks for the first two years of implementation and approved these benchmarks as part of the Memorandum of Agreement (MOA) signed with all EZ/EC's. EZ/EC communities were expected to review, revise and add to these benchmarks throughout the 10-year period of their designations. The timeliness of the benchmark review and update process is a subjective determination, not one that is mandated by law. Benchmarks may be added at any time, but at a minimum USDA encourages communities to use an **annual** process of their own choosing, involving the entire community, to develop and specify new benchmarks. (See memorandum dated March 7, 1997, "Amending and Revising EZ/EC Benchmarks and Strategic Plans," Attachment 1)

OCD's instructions to the EZ/EC communities, the Rural Development State Directors, and the State Title XX Administering Agencies provided that as with the original benchmarks, or newly submitted benchmarks, the federal and state reviews are not for the purpose of regulating the use of the funds, but to make a constructive contribution to the implementation of benchmarks activities selected by the EZ or EC and assuring that strategic plan implementation is consistent with the principles underlying the Empowerment Initiative.

In the development of the online BMS, OCD provided communities with the basic framework, consisting of nothing more than an SQL database computer program, which serves as the structural format for the development and management of each community's individualized set of benchmarks. In so doing, OCD allowed for a high level of flexibility, such that it would have been difficult, if not impossible, to draft a set of procedures for the ultimate creation of benchmarks that would require uniformity between all EZ/EC designated communities across the Nation.

To assist communities in the transition from the former paper benchmarks to the online benchmark management system, OCD published an "Instruction Manual for the Community Development Benchmark Management System", which has been revised several times, with the most recent Version 4 dated June 2000. These Instruction Manuals were designed to provide general guidance in the use of the online BMS, and contained step-by-step instructions for the use of the new software program. The Instruction Manuals also contain features that provide online training for communities, as well as directives concerning the responsibility of the OCD Desk Officer as the primary point of reference for the BMS. In Version 3 of the instruction manual issued in September 1999 it states on page 16 that communities "must" update their benchmarks monthly. However, this was revised with Version 4 of the instruction manual, which was issued in June 2000 and distributed to communities at the conference in Silver Spring on June 6-8, 2000. In Version 4 it states that communities "should" update their benchmarks monthly. This point is listed in the sixth bullet on the second page of the Benchmark Quick Reference Guide and also on page 17 of the manual. Version 4 also states that communities are only "required" to update for the Annual Benchmark Report. The OIG was using an out of date version of the instruction manual to conduct their investigation. The Version 4 of the instruction manual has been available on the web-site since June, and was provided at the June 2000 conference at which

OIG Officials conducting the audit were in attendance. (Attachment 2)

However, it must be understood that the informal Instruction Manuals, upon which the OIG Audit Report bases much of the support for their confirmed allegations of "mismanagement of EC benchmarks", were not intended to supercede Federal Regulations governing the EZ/EC Initiative. OCD specifically noted that there are three types of users: communities, states, and OCD, reaffirming the role of the Title XX Administrative Agency in providing oversight in their ability to use the BMS to review benchmarks, view other communities and create reports.

Notwithstanding the role of the state Title XX Agency, and the guidance and training provided by OCD to communities on an ongoing basis, the Louisiana Rural Development staff contends that it has played a vital role in assisting NELDCDC in making the transition from the original paper benchmark system to the online BMS. Documents attached hereto and outlined below serve to confirm the Agency's position relative to the extent of training provided to NELDCDC on the use of the 1998 online Benchmark Management System.

Reference is made to a Management Control Review Report of Louisiana, issued by the Office of Community Development in Washington, D.C. and dated August 13-16, 2000. (Attachment 3) Specifically noted in the report is the OCD determination that "Through its consistent support, the Rural Development State Office, has made the Macon Ridge EC and Northeast Louisiana Delta EC online benchmarks a model for other communities to follow." The report contains documentation to support the fact that the NELDCDC benchmark system was reviewed on August 15, 2000, during the course of the Management Control Review performed by a Rural Development National Office official.

Reference is made to a memorandum from [ ], Administrative Programs Director, to [ ], OIG Office of Audits, dated October 16, 2000, which transmitted additional information requested at the September 5, 2000, Informal Exit Conference on the NELDCDC audit.(Attachment 4) Specifically noted in the memorandum is Issue No. 3, accompanied by Exhibit F, which outlines numerous efforts, made by Rural Development Staff in training and providing guidance to NELDCDC on the benchmarking system.

When the transition from the initial paper benchmarking system to the online BMS was made, OCD provided communities with training information in the form of three primary sources, as follows:

- A memorandum issued by OCD dated September 11, 1998, "Amending and Revising EZ/EC Benchmarks and Strategic Plans." This memorandum continues to serve as the primary source of guidance for communities in updating their specific benchmarks.

- A training manual entitled "A Guide to Implementation and Benchmarking", developed by OCD to assist communities in the benchmarking process.

- OCD established a third source of training and guidance in the form of an employee, who serves as a Desk Officer, whose primary function is to assist communities in making the transition to the online BMS. The Desk Officer facilitates any problems, questions or training guidance that is needed not only by the EZ/EC Community, but also serves as a liaison and source of information to the USDA RD Field Staff who work with the communities.

In addition to the above sources of training and guidance, OCD conducts an annual National Conference with training breakout sessions for Rural Development Staff and representatives from the EZ/EC. These conferences include specific Benchmark Training sessions. NELDCDC's Executive Director has been a participant in the conferences held for the past three years, and two other NELDCDC representatives attended the 2000 Conference.

The position of Louisiana Rural Development State Office is that the successful maintenance of the online BMS for NELDCDC, as documented by OCD in their Management Control Review, is the result of training provided by the Rural Development field staff, in conjunction with on-going assistance provided to the Community by OCD. Efforts will be made to increase the opportunities for NELDCDC to network with the Rural Development State Office and field staff, for the purpose of refining the information contained in the existing benchmarks. If acceptable with NELDCDC, Rural Development State Office will conduct a formal training session in a classroom-style format, to provide individualized training to the appropriate staff of NELDCDC. The training would be to ensure that NELDCDC staff have a better understanding of the technical aspects of the SQL database computer program that is the foundation for the BMS, as well as the broad guidelines established by OCD for the development and maintenance of their specific benchmarks.

RECOMMENDATION NO. 2: Ensure that NELDCDC officials accurately document both benchmark funding and progress, and timely input this data into the BMS at the required intervals.

AGENCY RESPONSE: Following the implementation of the online Benchmark Management System, OCD updated the guidance to EZ/EC Communities, the State Title XX Administering Agencies, and Rural Development State Directors. (Attachment 5) The OCD memorandum served to confirm much of the 1997 directives regarding benchmarks, and specifically provided that benchmarks should be reviewed and updated annually. The same memorandum provides guidance in revising existing benchmarks, noting that Benchmark revisions need not be submitted for approval unless a "significant revision" takes place. Minor revisions to a benchmark do not need to be reviewed by USDA. The Benchmark Management System is programmed to distinguish between significant and minor changes to benchmarks. Therefore, the automatic notification process will not even occur if a minor change is made.

The OCD Instruction Manual for the Community Development BMS, dated June 2000, Version 4 provides interpretation and guidance on the directives contained in the foregoing memorandum. In the "Benchmark Quick Reference Guide" of the Manual, the section on Updating Benchmarks in the System provides that "Each community needs to identify one person who will be responsible for updating the information in the system each month. It is best to have one person responsible for actually entering the data; if there is more than one the responsibility for updating the information becomes clouded and the entries become less systematic. However, it is the responsibility of board members to ensure that the person responsible for updating the benchmark information is provided with the data they need." In Version 3 of the instruction manual issued in September 1999 it states on page 16 that communities "must" update their benchmarks monthly. However, this was revised with Version 4 of the instruction manual, which was issued in June 2000 and distributed to communities at the conference in Silver Spring on June 6-8, 2000. In Version 4 it states that communities "should" update their benchmarks monthly. This point is listed in the sixth bullet on the second page of the Benchmark Quick Reference Guide and also on page 17 of the manual. Version 4 also states that communities are only "required" to update their benchmarks for the Annual Benchmark Report. The OIG was using an out of date version of the instruction manual to conduct their investigation. The Version 4 of the instruction manual has been available on the web-site since June and was provided at the June 2000 conference at which OIG officials conducting the audit were in attendance.

The Manual further suggests that "Financial figures and project status such as output to date, completion of tasks should be updated monthly." This would be considered the "ideal" situation; despite the fact that the more official directives identified in the OCD memorandum cited above mandate not less than an annual review and update of benchmarks. The same OCD memorandum, dated September 11, 1998, defines the role of USDA State Offices in the benchmark review process. It is noted that "Federal review is not intended to "override" local decisions, but to assure adherence to the key principles of the EZ/EC program. USDA's preference will be to defer to local choices and priorities." The latter statement refers not only to the content of the benchmarks, but to the process the Board establishes for the timeliness of their updates and the person(s) to whom the responsibility for making such updates is delegated.

The conversion from the original paper benchmark system to the online BMS was expected to create additional challenges for the EZ/EC communities; however, OCD specifically outlined the three basic purposes of the system, as follows:

- To provide communities with a useful new management tool
- To streamline review and reporting processes
- To help OCD to better communicate the successes of the EZ/EC program (Attachment 5)

OCD's memorandum regarding the simple purposes of the online BMS warned that "As with any new computer application, you may encounter some problems." OCD requested feedback for systems users so that corrections to the system could be made as quickly as possible. The system itself was "under construction" for extended periods of time following the issuance in 1998, and OCD continues to provide enhancements which necessitates additional technical assistance from OCD Desk Officers to all system users.

OIG determines the online benchmark management system is designed to serve as a comprehensive method of providing complete fiscal accountability to Congress, the White House and the public, however, the BMS is in fact a simple tool for reporting progress in implementing the strategic plan. The preface of the instruction manual states the purpose of the BMS and financial management is not one of them. The BMS is an information system and not an accounting financial management program. OCD has reminded the parties to the MOA that the benchmarking process is designed to measure short-term outputs, rather than long-term outcomes. It is the position of OCD that the area of most confusion for communities is setting the unit of measurement, baseline, and benchmark targets, suggesting that performance measure should be quantifiable. OCD recognizes that some of the most important benefits of the program cannot be captured in this kind of process. (Attachment 5)

Louisiana Rural Development State Office and field staff have already established a system of communication and cooperation to ensure that all projects that are coordinated through NELDCDC and funded by USDA Rural Development are accurately reflected in the online Benchmark Management System. The inclusion of all Rural Development funded projects in the EC's benchmarks has and will continue to be an unconditional prerequisite for approval and obligation of RHS, RBS and RUS program funds.

Efforts will be increased to ensure that other projects and activities that are not funded through USDA Rural Development programs will be accurately reflected in NELDCDC's benchmark management system. However, the ultimate responsibility for including such projects in the BMS rests with the EC's Board of Directors and executive staff, and to the extent that SSBG funds involved, the State Title XX Administering Agency.

RECOMMENDATION NO. 3: Take the necessary action to withhold program funding and dedesignate NELDCDC's EC status if the entity continues to not comply fully with BMS reporting requirements.

AGENCY RESPONSE: Reference is made to 7CFR, Subtitle A, Part 25.405, which Addresses "Revocation of Designation".(Attachment 6) The basis for revocation reads that "The Secretary may revoke the designation of a rural area as an Empowerment Zone or Enterprise Community, or withdraw status as a Champion Community, if the Secretary determines, on the basis of the periodic monitoring and assessments described in Part 25.402, that the applicant, lead managing entity or the States or local governments in which the rural area is located have: (1) Modified the boundaries of the area without written approval from USDA; (2) Failed to make progress in implementing the strategic plan; or (3) Not complied substantially with the strategic plan (which may include failing to apply funds as contained in the strategic plan without advance written approval from USDA.)"

It is noted the "Instruction Manual for the Community Development Benchmark Management System" indicates that "Communities that do not update their benchmarks on a monthly basis will risk losing eligibility for USDA Rural Development earmarked funding and OCD letters of support for grant applications. Communities that persist in neglecting to update their benchmarks on a monthly basis will have all SSBG dollars and USDA EZ/EC grant funds suspended and will be considered for revocation of their Empowerment Zone, Enterprise Community or Champion Community status." (Attachment 2)

The language in the Instruction Manual is **not** supported by the federal regulations, which do **not** include "failure to maintain the benchmark management system" as justification for revocation of designation. It is the understanding of Louisiana Rural Development Staff that the intention of OCD in publishing the informal Instruction Manual was to provide broad guidance and persuasive arguments to the EZ/EC communities as to what constitutes the "highest and best use" of the BMS, but without any intent to subrogate the legal mandates contained in 7 CFR 25.405 relative to the legal grounds for revocation of the EZ/EC designations.

FINDING NO. 2: BUDGETARY AND PERFORMANCE ACTIVITY REPORTING REQUIREMENTS WERE NOT FOLLOWED

RECOMMENDATION NO. 4: Provide the responsible NELDCDC personnel the necessary training to ensure full compliance with the basic requirements for program accountability.

AGENCY RESPONSE: On March 18, 1998, a training session for all Intermediary Relending Program participants was conducted. NELDCDC was in attendance. On May 2, 2000, a training session was conducted with a new employee of NELDCDC. Over the past three years, 1998 through 2000, correspondence has been sent advising NELDCDC of regulatory requirements and/or changes that need to be done. RBS will continue to train personnel to ensure full compliance with their requirements.

- March 9, 1998-correspondence concerning training program (Attachment 7)

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- May 8, 2000-trip report to State Director, advising of May 2, 2000 Compliance Review and Training Session (Attachment 8)

The following are some examples of the Agency advising of or equesting additional information pertaining to Intermediary Relending Program (IRP) activity:

- January 5, 1998-correspondence concerning quarterly reports (Attachment 9)
- March 9, 1998-correspondence concerning training program (Attachment 7)
- December 3, 1999-correspondence concerning using services of Virginia Tech for reporting requirements (Attachment 10)
- January 7, 2000-correspondence concerning annual budget of proposed administrative costs for Agency approval
- (Attachment 11)
- January 7, 2000-correspondence concerning reporting requirements (Attachment 12)
- March 2, 2000-follow up correspondence of request of January 7, 2000 pertaining to annual budget (Attachment 13)
- March 27, 2000-correspondence concerning reporting requirements on Form 1951-4, "Report of IRP/RDLF Lending Activity" (Attachment 14)
- March 29, 2000-fax transmission information as a follow up to request of March 2, 2000 (Attachment 15)
- April 10, 2000-running record of a message left pertaining to requests of January 7th, March 2nd, and March 29th, 2000 (Attachment 16)
- April 28, 2000-correspondence concerning a Compliance Review (Attachment 17)
- May 8, 2000-trip report to State Director, advising of May 2, 2000 Compliance Review and Training Session (Attachment 8)
- June 20, 2000-correspondence concerning audit and quarterly reporting requirements (Attachment 18)
- August 17, 2000-correspondence concerning audit report (Attachment 19)
- November 16, 2000-correspondence concerning annual budget received (Attachment 20)
- November 20, 2000-received correspondence and revised annual budget (Attachment 21)
- December 1, 2000-correspondence concerning revised annual budget (Attachment 22)
- January 16, 2001-correspondence requesting annual budget for calendar year 2001 (Attachment 23)
- January 23, 2001-received annual budget calendar year 2001 (Attachment 24)

- February 5, 2001-approval of 2001 budget and reminder of reporting requirements (Attachment 25)

The Audit Report is correct in reflecting that NELDCDC has not filed annual budgetary reports for EC-earmarked IRP projects or performance activity reports for RBEG-Micro loan projects, and related quarterly financial status reports being inaccurate. Prior to calendar year 2000, an annual budget of proposed administrative costs for Agency approval was not being requested. Correspondence dated January 7, 2000, was mailed informing NELDCDC of the requirement of Rural Development Instruction 4274-D, Section 4274.332(b)(2) and requested the estimated annual budget to be submitted by January 31, 2000. Correspondence dated March 2, 2000, was mailed as a second notice to the correspondence dated January 7, 2000, requesting the estimated annual budget to be submitted by March 20, 2000. On April 10, 2000, the annual budget was discussed with an employee of NELDCDC. On November 16, 2000, the annual budget was received, but there were some items that needed to be addressed. Correspondence dated November 16, 2000, was mailed requesting clarification. November 22, 2000, revised budget received. On December 1, 2000, correspondence mailed requesting one item is addressed before the annual budget could be approved by our Agency. As of this date, no response has been received. Correspondence dated January 16, 2001, has been mailed requesting the annual budget for administrative costs for calendar year 2001. The annual budget has been received and approved.

Quarterly reports on the IRP and RBEG programs are being monitored for receipt as well as performance reports.

RECOMMENDATION NO 5: Closely monitor and test the accuracy of all NELDCDC annual budgetary and performance activity reports. If discrepancies are noted, Rural Development should timely follow up with responsible NELDCDC officials and obtain a resolution.

AGENCY RESPONSE: RBS will closely monitor and test the accuracy of all reports, annual budgets, and performance activity reports. Assistance and/or training will be given to the responsible NELDCDC officials and a resolution will be obtained.

- January 5, 1998-correspondence concerning quarterly reports (Attachment 9)
- January 7, 2000-correspondence concerning annual budget of proposed administrative costs for Agency approval
- (Attachment 11)

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- January 7, 2000-correspondence concerning reporting requirements (Attachment 12)
- March 2, 2000-follow up correspondence of request of January 7, 2000 pertaining to annual budget (Attachment 13)
- March 27, 2000-correspondence concerning reporting requirements on Form 1951-4, "Report of IRP/RDLF Lending Activity" (Attachment 14)
- March 29, 2000-fax transmission information as a follow up to request of March 2, 2000 (Attachment 15)
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CHAPTER 2: CONTROLS OVER HOUSING PRESERVATION, REPAIR, AND IMPROVEMENT OPERATIONS NEED STRENGTHENING

FINDING NO. 3: REHABILITATION, REPAIRS, INSPECTIONS, AND PAYMENTS TO CONTRACTORS NOT IN COMPLIANCE WITH PROGRAM REGULATIONS, POLICIES, AND PROCEDURES

RECOMMENDATION NO. 6: Provide the necessary technical support to the NELDCDC Staff and closely monitor the NELDCDC housing initiative to ensure full compliance of established EC housing guidelines. If NELDCDC does not comply with these guidelines, withhold all future EZ/EC earmarked housing initiative funding.

AGENCY RESPONSE: In regards to the HPG program, there were no problems noted during the review of recipient files or spot check of units.

Please note that on April 19, 2000, Rural Development issued AN. No. 3533 (1944-N)(Attachment 26), providing additional guidance and clarification of servicing issues within the HPG program. This requires reviews of the recipient files several times throughout the term of the grant. The NELDCDC HPG was made prior to the issuance of this AN.

NELDCDC has not received additional HPG funds since the initial grant.

RECOMMENDATION NO 7: Review the cases cited in Exhibit E, assess the conditions surrounding the repair defects that were to have been addressed under contract, and take the necessary action to have them corrected.

AGENCY RESPONSE: It is noted that OIG refers to Rural Housing Assistance Grants (RHAG) as a program, which it is not. RHAG is earmarked funds available for use in the EZ/EC communities for our grant programs, such as the Section 504 Grant. In working with families under this program, we follow the requirements as set forth by the Section 504 Loan and/or Grant programs in 7 CFR 3550 and HB-1-3550, Chapter 12.

They also make mention that "licensed contractors are not required, but the practice contributed to less than workmanlike repairs". Licensed contractors are not required by Louisiana law if the cost of construction or rehabilitation is $50,000 or less. (Attachment 27) As a result, it is our understanding we do not have the authority to require a licensed contractor in these cases.

In reference to the frequency of inspections, RD Instruction 1924-A, paragraph 1924.9 (b) (2), is followed (Attachment 28). Depending upon the extent of the work involved, normally a final inspection is all that is needed (Stage 3) for work done under a Section 504 Grant. If extensive work is involved (such as outlined in Stage 2), an interim inspection may be done prior to the final. In addition, there is no requirement for State licensed inspections on work that is done by a Section 504 Grant. HB-1-3550 only addresses loans over $7,500 with a repayment schedule greater than 15 years. (Attachment 29)

On Page 23, paragraph (2), the report makes mention that "Rural Development area office enters into contract with the homeowner". Rural Development did not execute Form RD 1924-6, Construction Contract, for repairs covered under the Section 504 Grant Program. The Construction Contracts were executed by the contractor and the homeowner. Since there is no RHAG instruction, the portion of the RHAG that pertains to the Section 504 Grant Program is handled as previously stated.

The Section 504 Grant limit is $7,500; therefore, if more work was needed, NELDCDC found other sources of funding in order to assist the homeowner. Prior to disbursement of any funds for the Section 504 grant portion, a Rural Development representative inspected the property to determine the acceptability of the repairs on behalf of Rural Development. The contractor's funds for the Section 504 Grant portion were not ordered until the signature of the homeowner was obtained on the inspection report.

Homeowner B – Subject's property was inspected by Rural Development personnel on June 22, 1998, to determine if the property met eligibility requirements and the needed repairs. The property met the requirements and nine (9) items were identified to be replaced and/or repaired. The applicant also met the program eligibility requirements for a Section 504 Grant. The repair list was prepared and mailed to NELDCDC. The Area Office personnel were advised by NELDCDC that they had obtained additional funding for these projects and would purchase the materials in bulk, thus, a cost savings to the homeowners. Also, NELDCDC advised they would assist the homeowners in obtaining bids for the work to be done. The Rural Development Manager advised [ ] that we would have to keep funds separate in order to comply with the Section 504 regulation. In addition, [ ] was advised that Section 504 Grant funds were only to be used to remove those items that had been identified as hazards to the property. [ ] was also advised that Rural Development must perform an inspection prior to the releasing of funds for the Section 504 Grant portion.

Rural Development representatives performed the inspections on this property. Overall, the workmanship and materials were satisfactory. However, at the first inspection on April 1, 1999, there were some deficiencies noted that warranted correction prior to payment. A second inspection was then made on April 22, 1999, and there were two (2) minor items that had not been completely corrected. However, due to the minor nature of these corrections, the homeowner agreed to allow payment to the contractor, with the understanding that the minor corrections would be made. A follow-up inspection was performed by Rural Development personnel and all deficiencies had been corrected.

Homeowner E - This property was in deplorable condition as it had partially burned and there were additions to the front and rear of the dwelling that were not connected property. However, the elderly homeowners wanted to remain in this dwelling, and NELDCDC stated they could have the necessary repairs done to the home. A repair list was developed and a contract entered into between the homeowner and the contractor. NELDCDC assisted these homeowners the same as Homeowner B.

The Area Office personnel made an inspection on subject property on March 1, 1999, and found the work covered by the Section 504 Grant to be satisfactory (relative to repair list developed for the grant). On that date, the homeowner executed the inspection report in order for payment to be made. In regard to the deficiencies noted in subject report, the following information is provided: (1) The front and rear doors were not on the repair list; (2) At the time of the inspection, there was no cracked kitchen tile, and molding was not on the repair list; (3) At the time of inspection, there were no sagging ceiling tiles; (4) In reference to the flooring in the bedrooms, the inspector walked through the house with Homeowner E and [ ] stated there were no problems noted; and (5) The inspector checked the wiring and noted there were new switches, receptacles, and covers present. The breaker box was checked and everything appeared in order. This dwelling has 100-amp service which is acceptable as the home has gas heat and stove.

In addition, many of the items listed specifically identify the type of materials to be used as noted by Form RD 1924-2, Description of Materials, and the repair list. Although Homeowner E is an elderly couple, there are a number of children in the dwelling. According to the inspector, there were clearly signs of excessive wear and tear being made on the dwelling even after the work had been done and during the inspection.

As stated above, the Rural Development Area Office made their inspections on the Section 504 Grant portion when requested by the homeowner in accordance with the Section 504 regulations. If payment was made on the other sources of funding, we did not have knowledge of those payments or who did the inspection.

The HPG program provides grants to grantees to operate a program which finances repair and rehabilitation activities to individual housing, rental properties, or co-ops for very low and low-income persons.

Responsibility for the rehabilitation, repairs, inspections, and payments lies with the grantee in accordance with the following Rural Development regulations:

-1944.664 (a) – Housing Preservation and replacement housing assistance, which states in part, "Grantees are responsible for providing loans, grants, or other comparable assistance to homeowners, owners of rental properties, or co-ops for housing preservation or for replacement housing".

-1944.665 – Supervision and inspection of work, which states in part, "Grantees are responsible for supervising all rehabilitation and repair work, as well as replacement housing financed with HPG assistance. After all HPG work has been completed, a final inspection must be done by a disinterested third party, such as local building and code enforcement officials".

-1944-N, Exhibit C, XI – Additional Instructions

Contracts, which states, "The repair/rehabilitation contracts are normally between the recipient and the contractor and not between the grantee and the recipient. An exception is where the grantee is operating as the contractor".

Construction Inspections, which states in part, "FmHA personnel visiting the recipient units/dwellings are monitoring only for program compliance and not for construction compliance nor for code violations (unless the FmHA official is a construction inspector, construction analyst, or state office architect).

No FmHA personnel can sign off on the final inspection for the grantee".

Monitoring by FmHA, which states, "FmHA should review a few of the recipient files to make sure the grantee is in compliance with all regulations. FmHA should also spot check a few of the recipients homes to make sure all items are being looked at, there are no historical or environmental concerns, etc… FmHA is not running the program…the grantee is. We are simply monitoring the grantee".

In reference to OIG's comment regarding completion of inspections and repair defects being corrected prior to final payment for RHAG and HPG funded projects, please note HPG regulations do not provide guidance on repair defects since the contract is between the recipient and the contractor and the grantee is responsible for supervising all repair and rehabilitation work as noted in the above procedural references.

OIG also stated that quarterly reports were not signed by NELDCDC or Rural Development for the periods of October 1998 to December 1998, and April 1999 to June 1999. Quarterly reports were not submitted in a timely manner by NELDCDC. All quarterly reports, along with the final report and audit were submitted to Rural Development on July 13, 1999. The MFH Specialist indicated he chose only to sign the final report since all reports were submitted at the same time. However, all reports were signed by Mr. Andy Saavedra, Housing and Community Development Director for NELDCDC. Quarterly reports contain 3 signature lines – the preparer, grantee and Rural Development. Mr. Saavedra signed as preparer and did not sign as grantee. In addition, OIG made reference to Rural Development's visit to spot check repairs on Homeowner C in Exhibit F of their report. OIG indicated the spot check was approximately 2 weeks after final payment to the contractors. As previously stated, Rural Development makes inspection to ensure program compliance not construction compliance or code violations. NELDCDC has the responsibility to obtain a disinterested third party inspection prior to the final payment.

Rural Development regulation 1944-N, Exhibit C, VI (Attachment 30) requires the FmHA servicing office official to review a sample number of recipient files and dwellings, shortly after the grantee begins construction, to ascertain compliance with HPG regulations. The grant agreement was mailed to NELDCDC on November 3, 1998, authorizing them to begin repair work.

On January 28, 1999, the MFH Specialist visited the grantee and reviewed a sample number of files. In addition, the MFH Specialist also visited the units being repaired. A copy of his inspection report and running record are attached (Attachment 31). The inspection report indicated 9 of the houses were complete, however, there were still houses being repaired.

Exhibit E indicates Homeowners C, D, G, I and J received HPG funds only and Homeowners B, E and G received RHAG (Section 504) and HPG funds. Therefore, we offer the following comments regarding Notes 1, 2, 3 and 4 for these homeowners.

Homeowner B
NOTE 1: Contract Exceptions – (a), (b), (c) and (d) are responsibilities of the grantee in accordance with the following Rural Development regulations:

-1944.664 (a) – Housing Preservation and replacement housing assistance, states in part, "Grantees are responsible for providing loans, grants, or other comparable assistance to homeowners, owners of rental properties, or co-ops for housing preservation or for replacement housing".

-1944-N, Exhibit C, XI – Additional Instructions

Contracts, which states, "The repair/rehabilitation contracts are normally between the recipient and the contractor and not between the grantee and the recipient. An exception is where the grantee is operating as the contractor".

In this case the grantee is NELDCDC and the recipient is the HOMEOWNER.

NOTE 2: Inspection Exceptions – (d) is a responsibility of the grantee in accordance with the following Rural Development regulations:

-1944.665 – Supervision and inspection of work, states in part, "Grantees are responsible for supervising all rehabilitation and repair work, as well as replacement housing financed with HPG assistance. After all HPG work has been completed, a final inspection must be done by a disinterested third party, such as local building and code enforcement officials".

-1944-N, Exhibit C, XI – Additional Instructions

Construction Inspections, "All units/dwellings repaired or rehabilitated must be completed and inspected by a disinterested third party prior to the close of the HPG agreement, as provided by the state in the grant agreement. This should be done prior to the last payment to the contractor. Typically, the grantee, grantee's representative, or someone on the grantee's staff should not do the final inspection. However, this would be allowed, for example, if the city was the grantee, had a separate housing department and a separate inspection department. FmHA personnel visiting the recipient units/dwelling are monitoring only for program compliance and not for construction compliance nor for code violations (unless the FmHA official is a construction inspector, construction analyst or state office architect).

No FmHA personnel can sign off on the final inspection for the grantee".

Monitoring by FmHA, "FmHA should review a few of the recipient files to make sure the grantee is in compliance with all regulations. FmHA should also spot check a few of the recipients homes to make sure all items are being looked at, there are no historical or environmental concerns, etc. FmHA is not running the program...the grantee is. We are simply monitoring the grantee".

Rural Development personnel conducting the "spot checks" was a Multi-Family Housing Area Office Specialist.

NOTE 3: Contractor Payment Exceptions – (a), (b) and (c) are responsibilities of the grantee in accordance with the following Rural Development regulations:

-1944.664 (a) – Housing Preservation and replacement housing assistance, states in part, "Grantees are responsible for providing loans, grants, or other comparable assistance to homeowners, owners of rental properties, or co-ops for housing preservation or for replacement housing".

-1944.665 – Supervision and inspection of work, states in part, "Grantees are responsible for supervising all rehabilitation and repair work, as well as replacement housing financed with HPG assistance. After all HPG work has been completed, a final inspection must be done by a disinterested third party, such as local building and code enforcement officials".

-1944-N, Exhibit C, XI – Additional Instructions

Contracts, which states, "The repair/rehabilitation contracts are normally between the recipient and the contractor and not between the grantee and the recipient. An exception is where the grantee is operating as the contractor".

In this case the grantee is NELDCDC and the recipient is the HOMEOWNER.

Construction Inspections, "All units/dwellings repaired or rehabilitated must be completed and inspected by a disinterested third party prior to the close of the HPG agreement, as provided by the state in the grant agreement. This should be done prior to the last payment to the contractor. Typically, the grantee, grantee's representative, or someone on the grantee's staff should not do the final inspection. However, this would be allowed, for example, if the city was the grantee, had a separate housing department and a separate inspection department. FmHA personnel visiting the recipient units/dwelling are monitoring only for program compliance and not for construction compliance nor for code violations (unless the FmHA official is a construction inspector, construction analyst or state office architect).

No FmHA personnel can sign off on the final inspection for the grantee".

Monitoring by FmHA, "FmHA should review a few of the recipient files to make sure the grantee is in compliance with all regulations. FmHA should also spot check a few of the recipients homes to make sure all items are being looked at, there are no historical or environmental concerns, etc. FmHA is not running the program...the grantee is. We are simply monitoring the grantee".

Rural Development personnel conducting the "spot checks" was a Multi-Family Housing Area Office Specialist.

NOTE 4: COST – Questioned Labor Cost – Labor cost is part of the contract between the recipient and the contractor. The final quarterly report submitted to Rural Development does not agree with total cost noted in the OIG draft audit.

HOMEOWNER C
NOTE 1: See Homeowner B
NOTE 2: See Homeowner B
NOTE 3: See Homeowner B
NOTE 4: See Homeowner B

HOMEOWNER D
NOTE 1: See Homeowner B
NOTE 2: See Homeowner B
NOTE 3: See Homeowner B
NOTE 4: See Homeowner B

HOMEOWNER E
NOTE 1: See Homeowner B
NOTE 2: See Homeowner B
NOTE 3: See Homeowner B
NOTE 4: See Homeowner B

HOMEOWNER G
NOTE 1: See Homeowner B
NOTE 2: See Homeowner B
NOTE 3: See Homeowner B
NOTE 4: See Homeowner B

HOMEOWNER I
NOTE 1: See Homeowner B
NOTE 2: See Homeowner B
NOTE 3: See Homeowner B
NOTE 4: See Homeowner B

HOMEOWNER J
NOTE 1: See Homeowner B
NOTE 2: See Homeowner B
NOTE 3: See Homeowner B
NOTE 4: See Homeowner B

FINDING NO 4: EXECUTION OF CONTRACTS FOR HOUSING REHABILITATION AND REPAIRS NEEDS IMPROVEMENTS.

RECOMMENDATION NO. 8: Establish EC housing guidelines, develop procedures and provide the necessary technical support to the NELDCDC staff to provide for the uniform execution of all contracts for EC housing repairs, improvements, and inspections, not withstanding the source of funding for the individual projects. Specifically, these procedures should clearly identify and/or define the elements of a properly executed contract, including: (1) specifications of the type-contract, (2) the official bid (as applicable) which served as a basis for selection of the contractor, (3) an itemizes listing (with corresponding costs estimates) of the work to be performed and/or services rendered, (4) total amount of the contract, (5) provisions for amendments, (6) timeframe for completion of work, (7) intervals and parameters of inspections, (8) payment intervals, (9) payment withholding statement, and (10) statement of penalty for noncompliance with the terms of the contract.

AGENCY RESPONSE: Execution of documents, inspections, etc., for the Section 504 Grant program is established by 7 CFR 3550, Subpart C, Section 504 Origination, and other Rural Development instructions. There are no RHAG inspection provisions. Any guidelines established, other than those cited by current instructions, will have to be developed on the National level.

We do not have authority in the Section 504 Grant program to make repairs on defective workmanship. The homeowners have rights under the Construction Contract to have the contractor come back to repair defective workmanship. Depending upon availability of funds, if the homeowner has not received the lifetime amount of $7,500 (Section 504 Grant), if additional repairs are needed and are feasible, we can make them an additional grant.

It was noted throughout the report that OIG referred to Rural Housing Assistance Grants (RHAG) as a program. According to the memorandum dated January 27, 1998, (Attachment 32) from the RHS Administrator, RHAG is earmarked funds available for use in the EZ/EC designated communities for Rural Housing grant programs. The memorandum further states applications are to be processed under existing program regulations such as HPG and Section 504 housing repair grants.

There were references in the OIG audit to RHAG inspection provisions. It appears when OIG refers to RHAG they are referring to Section 504 housing repair grants.

CHAPTER 3: BENEFITS FROM TWO EC EARMARKED IRP PROJECTS DID NOT SUFFICIENTLY ACCRUE TO RESIDENTS OF THE DESIGNATED EC BOUNDARIES

FINDING NO. 5:

RECOMMENDATION NO. 9: Timely disseminate EC policy to all appropriate Rural Development officials and EC lead entities, then follow up to ensure receipt, understanding and compliance by all responsible parties.

AGENCY RESPONSE: RBS will continue to work with the officials at NELDCDC, as well as the Program Support Staff of Rural Development, to timely disseminate EC policy, and follow up to ensure receipt, understanding, and compliance

RECOMMENDATION NO 10: Initiate appropriate actions and collect the remainder of the $155,000 in improper loans (approximately $122,722 as of date of audit) provided to two EC-earmarked IRP ultimate recipients.

AGENCY RESPONSE: The recommendation of RBS is to continue with both loans as the one project came within the EZ/EC boundaries and another project within 25% outside the EZ/EC boundaries. OCD, Washington, DC, has concurred in this recommendation.

Per Decision Memorandum for the Acting Administrator signed and dated March 16, 1995. Subject: Policy for Funding of EZ/EC Projects. Issue was Agency policy for Empowerment Zones/Enterprise Communities (EZ/EC) projects that either serve directly or benefit rural residents located both in designated and outside-designated EZ/EC boundaries. Option approved stated: "Allow earmarked funds to be used for projects identified in EZ/EC strategic plan provided a significant percentage of benefits of the project will be received by rural residents in the EZ/EC boundaries. Suggest percentage could range from 50 percent to 90+ percent. A percentage of 75 percent or more would be more supportable. A provision for waiver of this percentage could be made on a case-by-case basis by the appropriate Administrator." (Attachment 33)

Loan No. 1 was approved as being in the 25% outside-designated EZ/EC boundaries. At the time of approval, Enterprise Community certification was submitted to the Agency stating that benefits were within the Enterprise Community. (Attachment 34)

Loan No. 2 was approved as a business located within the 75% EZ/EC boundaries and benefits to rural residents falling within the designated EZ/EC boundaries. The loan applicants and employees were all located within the designated EC boundaries. Therefore, 100% of benefits went to residents of Enterprise Community. (Attachment 35)

Director, Empowerment Programs Division, OCD, Rural Development, Washington, DC, provided a February 21, 2001, letter supporting Louisiana's interpretation of these guidelines. That office has agreed with the eligibility determinations made by this office on the two IRP loans discussed herein. (Attachment 36)

RD Instruction 4274-D §4274.361 Requests to make loans to ultimate recipients. (b) A request for Agency concurrence in approval of a proposed loan to an ultimate recipient must include:

(1) Certification by the intermediary that:

(i) The proposed ultimate recipient is eligible for the loan;
(ii) The proposed loan is for eligible purposes;
(iii) The proposed loan complies with all applicable statutes and regulations;
(iv) The ultimate recipient is unable to finance the proposed project through commercial credit or other Federal, State, or local programs at reasonable rates and terms; and
(v) The intermediary and its principal officers (including immediate family) hold no legal or financial interest or influence in the ultimate recipient, and the ultimate recipient and its principal officers (including immediate family) hold no legal or financial interest or

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(vi) influence in the intermediary except the interest and influence of a cooperative member

(vii) when the intermediary is a cooperative.

Certifications by the intermediary were received on Loan No. 1 and Loan No. 2 (Attachment 34 and Attachment 35)

RECOMMENDATION NO. 11: Strengthen the controls over the application review and approval process at the EC and Rural Development State Office levels, and ensure that benefits accrue to residents of the designated EC boundaries commensurate with the requirements of EC program regulations.

AGENCY RESPONSE: All processing for eligibility and environmental requirements are completed by the RBS Staff in the Rural Development State Office. This process will be reviewed, strengthened and closely monitored to ensure we continue compliance with EC programs and regulations and Rural Development national guidelines and instructions.

CHAPTER 4: NELDCDC ADMINISTRATIVE OFFICE SPACE RENTAL PAYMENTS EXCEEDED ALLOWABLE COSTS

FINDING NO. 6:

RECOMMENDATION NO. 12: Recover the amount of rent paid to the NELDCDC officer's for-profit corporation in excess of the allowable cost per OMB Circular A-122, including any amount paid after the conclusion of audit fieldwork ending March 31, 2000.

AGENCY RESPONSE: This appears to be an issue that NELDCDC needs to address with the state pass-through agency for SSBG funds. There is not a cap on administrative costs, including rent, for SSBG funds.

The amount of rent should be based on what the market price per square foot is in the area. The EC should be paying market rate or less that market rate. As for the connection between EC staff and the owners of the building, this may breach the "arms length" suggestion for use of funds. The EC needs to be transparent in its dealings. However, if the EC were getting a break on rent and paying below market rates it seems that this would be justifiable.

The Rural Development State Office is responsible for assisting the EC in implementing the strategic plan and monitoring the use of Rural Development loans and grants. However, we do not have veto power over the EC drawing down funds for administrative costs. The funds are not from Rural Development. They are provided by the Department of Health and Human Services and distributed through the state pass-through agency for SSBG funds.

RECOMMENDATION NO. 13: Instruct NELDCDC to adjust its future rent payments to the NELDCDC official's corporation to the allowable cost stipulated in OMB Circular A-122 and ensure compliance.

AGENCY RESPONSE: Again, this appears to be an issue that NELDCDC needs to address with the state pass-through agency for SSBG funds. Rural Development is responsible for assisting the EC in implementing the strategic plan and monitoring the use of Rural Development loan and grant funds. Rural Development does not control the drawing down of SSBG funds by the EC.

ABBREVIATIONS

Act	Omnibus Budget Reconciliation Act of 1993
BMS	Benchmark Management System
CFR	Code of Federal Regulations
DOC	Department of Commerce
DOL	Department of Labor
DOT	Department of Treasury
EDA	Economic Development Administration
EC	Enterprise Community
EZ	Empowerment Zone
EZ/EC	Empowerment Zone/Enterprise Community
FmHA	Farmers Home Administration
GAO	General Accounting Office
HBCU	Historically Black Colleges and Universities
HHS	Department of Health and Human Services
HPG	Housing Preservation Grant
HUD	Department of Housing and Urban Development
IRP	Intermediary Relending Program
IRS	Internal Revenue Service
LDSS	Louisiana Department of Social Services
NELDCDC	Northeast Louisiana Delta Community Development Corporation
OCS	Office of Community Services
OCD	Office of Community Development
OIG	Office of Inspector General
OMB	Office of Management and Budget
RBEG	Rural Business Enterprise Grant
RD	Rural Development
RHAG	Rural Housing Assistance Grant
SSBG	Social Service Block Grant
USDA	United States Department of Agriculture
VISTA	Volunteers in Service to Ameri