The original documents are located in Box 17, folder "Soul City" of the Paul C. Leach Files, 1974 - 1977 at the Gerald R. Ford Presidential Library.

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

Soul City

OMBE has provided

190	72
342	73
333	74
320	75

For Purpose of Plan, Promote, Develop Industrial Progra

EDA gave water system grant $2 million

Bruce Davies 4559

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

C.S.A. from Quern

FY 1973 — $503,000 — goal to assist — office bldg construct

FY 1974 — Turned down on $2.5 million

FY 1975 — $93,000 — for admin. expenses

FY 1976 — Request for about $93,000 all will probably give $40,000 (with kiss off).

MEMORANDUM

EDA from HITT

THE WHITE HOUSE

WASHINGTON

EDA is comfortable with progress and purposes.

No indication of improprieties with grant from EDA

Call Carl Hystad

THE WHITE HOUSE
WASHINGTON

DATE: July 14, 1975

TO: LYNN MAY

FROM: JIM CAVANAUGH

SUBJ: Senator Helms & OMBE

FYI_____

Action x

Please see me on this.

Called Hystad 7/18/75 for FACTS.

2/30

July 11, 1975

MEMORANDUM TO: JIM LYNN
JIM CANNON ✓

FROM: JACK MARSH

The attached materials present a number of delicate practical and political problems. As Russ's memo indicates, GAO is already looking into this matter.

The President is aware of Senator Helms's interest in this matter, and asked me to refer the phone memo and attachments to you for your consideration and suggestions.

I think he would like to have a short report back from OMB and Domestic Council as to the status of the situation as soon as is reasonably possible.

Many thanks.

cc: MFriedersdorf

JOM:cb

7/30

U.S. SENATOR JESSE HELMS
5107 Dirksen Senate Office Building
Washington, D.C. 20510
202-224-6342

JUL 3 1975

Thought this might be
of interest to you - - -

Clint Fuller
Executive Assistant

Some items in this folder were not digitized because it contains copyrighted materials. Please contact the Gerald R. Ford Presidential Library for access to these materials.

Raleigh (N.C.) News & Observer 7/4/72

McKissick Agency Given Contract

By PAT STITH
Staff Writer

The Office of Minority Business Enterprise (OMBE) in Washington announced Thurs-

Corp. (WRPC), a Soul City planning agency headed by Floyd B. McKissick.

McKissick is the founder of Soul City, a government-subsidized "new town" in Warren

en existing minority businesses and help start new minority business in Warren, Vance, Franklin, Halifax, Northampton and Nash Counties.

The new contract was effec-

$500,000 of that money assisting McKissick's firms at Soul City.

Under prior contracts, WRPC was to have planned various aspects of Soul City,

vested more than $1 million in McKissick's Soul City project, has been under fire from the House Appropriations Committee.

That committee's investiga-

However, he said, "If we do not have money and ar working, we will make arrangements."

Shipes said he felt that ing the crew out on the was not the answer to the lem because without jo money they would need go

THE WHITE HOUSE

WASHINGTON

July 7, 1975

MEMORANDUM FOR: JACK MARSH

FROM: RUSS ROURKE R

SUBJECT: Telephone Conversation With Senator Helms

Senator Helms is extremely upset over continuing grants to Soul City, North Carolina. Both Senator Helms and Congressman Fountain have just called for a GAO audit of government grants to Soul City. Helms wants all such grants (HUD, HEW, OMBA, etc.) stopped until it is determined "how much McKissick and those rascals have stolen." Senator Helms advised me that both he and his wife personally drove through Soul City and found no evidence whatever that any of the grants (now totaling some $17 million) have been put to any useful purpose whatever. "Soul City Boulevard is nothing but a bulldozer scraped road with temporary trailers on either side of the road."

Helms recited a $320,000 grant as the latest example of wasteful and irresponsible govt. actions.

He is sending today a newspaper article from the Raleigh papers which further identifies the specifics of this situation.

Helms asks that the White House act to halt any further award of grants.

THE WHITE HOUSE

WASHINGTON

July 28, 1975

MEMORANDUM FOR: JIM CANNON

THROUGH: MAX FRIEDERSDORF MF

FROM: BOB WOLTHUIS RKW

SUBJECT: Soul City Funding in North Carolina

Senator Helms called and was very disturbed by the fact that Community Services recently funded Floyd McKissick's Soul City program in North Carolina for $38,000. Helms is insisting that all funding throughout the administration be temporarily halted until a GAO study of Soul City is completed. In our telephone conversation this afternoon he stated that HUD had terminated funding pending the GAO report but was very disturbed about Community Services. Senator Helms alleges that after $7 million all that exists at Soul City is three house trailers. He suspects that McKissick has Swiss Bank Accounts that should be looked into.

Senator Helms expressed a very strong desire that he wants to save the President any embarrassment and, therefore, the GAO report should be completed before any further funds are put into the program.

cc: Jim Lynn
Paul O'Neill

1975 JUL 29 AM 11 08

THE WHITE HOUSE
WASHINGTON

DATE: July 29, 1975

TO: PAUL LEACH

FROM: JIM CAVANAUGH

SUBJ: Senator Helms & OMBE,
Grants to Soul City, No. Car

FYI_____

Action____

You're already working on this.

7/30

THE WHITE HOUSE

WASHINGTON

July 30, 1975

MEMORANDUM FOR: JIM CAVANAUGH

FROM: PAUL LEACH

SUBJECT: **Soul** City

Attached are reports from Bob Hitt, Morton's Assistant at Commerce and Otto Stolz at HUD's Community Development Corporation.

HUD is making no new disbursements of grant money until the GAO audit is completed.

OMBE has investigated the allegations and found that there was no conflict of interest. OMBE is continuing to fund Soul City. Bob Hitt is going to dig into this to make sure that the OMBE investigation was complete and fair. He is also looking into EDA involvement.

Art Quern is getting information from HEW and C.S.A.

U.S. DEPARTMENT OF COMMERCE
Economic Development Administration

July 31, 1975

To : Bob Hitt

From: Bill Henkel Bill

Attached please find some current material relative to EDA's Henderson, N.C. (Soul City) project. The information confirms our conversation yesterday that EDA is comfortable with the purposes and progress of the subject project. The information I developed is routine and normal.

Attachment

TRANSMITTAL FORM CD-82A (10-67)
PRESCRIBED BY DAO 214-2

USCOMM-DC 1232-P67

U.S. DEPARTMENT OF COMMERCE
EXECUTIVE ASSISTANT TO THE SECRETARY

To: Paul Leach

From: Bob Hitt

Per our conversation.

PROJECT MANAGEMENT DIVISION
DATE: July 30, 1975

PROJECT BRIEF

Project No. 04-01-01159.1

Project Location: Henderson, N.C. (Soul City)

Project Description: The project is for construction of a raw water intake in Kerr Reservoir; a 36" raw water main from the intake to a new 10 MGD water treatment plant; a 36" finished water main from treatment plant to Middleburg; with a 20" water main extending from Middleburg to Soul City with elevated storage, a 30" water main extending from Middleburg to Henderson, and a 20" water main extending to Oxford from Henderson.

Grantee is City of Henderson with Soul City as one beneficiary.

Date Approved: June 29, 1973

Financing:		
	Total Project Cost	$12,823,000
	EDA Grant	2,140,000
	EDA Loan	- 0 -
	Other Federal Assistance	- 0 - 1/
	Applicant's Funds	10,683,000 1/

Status of Project: Water Transmission lines substantially complete (ahead of schedule). Treatment Plant will not be completed until May 1976.

Attached is an Inspection Report by Mabry S. Morgan of SERO dated April 2, 1975 with attachments.

1/ Bill see project budget attached for complete breakdown of this.

As of March 27, 1975, funds in the amount of $4,090,667 have been expended. EDA is presently processing the first disbursement in the amount of $570,250.00.

As you know, there have been a series of articles in North Carolina newspapers concerning allegations of improprieties in Federal Grants to Soul City. Apparently there will be investigations and audits. The EDA grant is, of course, to the City of Henderson and to date there has been no indication that our project will be involved.

Mr. Holmes, City Manager of Henderson, appears to be quite satisfied with the progress of the work thus far and is aware of no problems or developments which might complicate or delay the work. I am in frequent telephone contact with Mr. Holmes and have requested that he contact me or you immediately if he becomes aware of any situation which might jeopardize the success of the project.

For your information and convenience, I am attaching maps, budget and financing breakdowns, and contractor list for the project.

Mabry S. Morgan

MABRY S. MORGAN
Civil Engineer

Attachments

U.S. DEPARTMENT OF COMMERCE
Economic Development Administration
SOUTHEASTERN REGIONAL OFFICE
1401 Peachtree St. N.E.
Atlanta, Georgia 30303

Date: April 2, 1975

Reply to Attn of: TSD-SERO

Subject: Project Inspection
EDA Project No. 04-1-01159
Henderson, North Carolina

To: C. H. Cole
Chief, Engineering Branch

On Thursday morning, March 27, 1975, Mr. Everett Scott, HUD Engineer, Raleigh, N. C.; Mr. Dick Primm, HUD Labor Relations Department, Greensboro, N. C.; and I met with Mr. Melvin Holmes, City Manager of Henderson, N. C. We discussed a labor problem which Mr. Scott had observed at the construction site of the raw water intake facility a couple of weeks earlier. Mr. Scott had observed two employees tieing structural steel reinforcing bars who were classified and being paid as carpenters. The carpenter's classification carries a lower wage rate than structural steel workers. Mr. Scott discussed this with the superintendent of the construction company and the superintendent stated that the improper classification would be taken care of. EDA will verify this by checking future payrolls.

In the afternoon, Mr. Scott and I made a construction inspection on active parts of the project. We visited the elevated tank site where foundations were being formed for placement of concrete within a few days. The work was satisfactory.

No work was being performed at the raw water intake structure due to recent rains which had raised the water level approximately 15 feet above normal pool elevation. It was estimated that it will take 3 or 4 weeks to draw down the level of Kerr Reservoir enough to resume construction on the intake structure.

Work at the water treatment plant was progressing rapidly and it appears that the plant work is on schedule.

All pipe lines are being installed rapidly and the work is ahead of schedule with the exception of the connecting main to the Cities of Henderson and Oxford. The contracts for these lines were executed on February 24, 1975 and work was to be completed within 180 calander days.

All construction and clean up inspected to date appears to be satisfactory. For a project of this size and scope, there has been a minimum of problems and change orders to date.

EDA PROJECT 04-1-01159
Henderson, North Carolina

PROJECT BUDGET

	Grant Offer 6/29/73	Amendment 12/4/74	Actual After All Bids 2/24/75
Interest	$ 264,000	$ 370,000	$ 370,000
Legal & Admin.	20,000	20,000	20,000
Land	57,000	60,000	60,000
A/E Fees	452,000	717,060	717,060
Incidental to Land Acquisition	7,000	7,000	7,000
Construction	7,400,000	11,211,831	11,012,140
Contingency	800,000	437,109	396,082
Total	9,000,000	12,823,000	12,582,282*

*Last contracts awarded resulted in underruns, causing the budget to be less than anticipated on Dec. 4, 1974.

	SOURCES OF FUNDS	± %
EDA	$2,140,000	17
HUD	4,022,950	32
State of N.C.	2,795,000	22.2
Henderson	2,535,021	20.2
Oxford	986,191	7.8
Soul City	103,120	0.8
	12,582,282	100.0

Total Federal Funds = $\frac{6,162,950}{12,582,282}$ = 49%

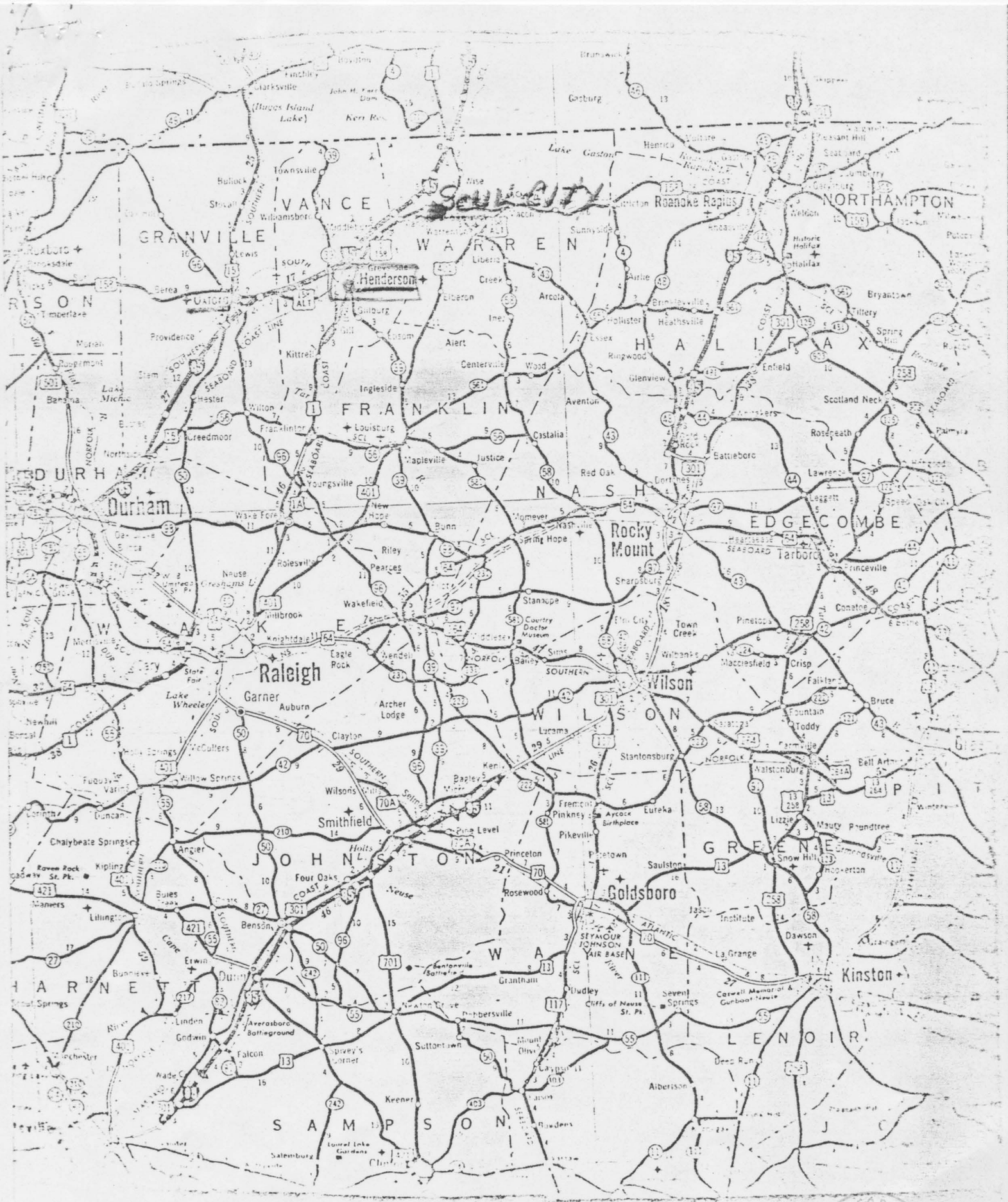
EDA PROJECT 04-1-01159
Henderson, N.C.

CONTRACTS AND AMOUNTS

Contractor	Contract	Amount	% Complete
George W. Kane, Inc.	Water Treatment Plant	$3,034,000	24
Roberts Filter Co.	Filters	621,300	0
Bolton Corporation	Plumbing	70,920	34
Bolton Corporation	Mechanical	123,926	12
Watson Electrical	Electrical	410,830	6
Paul N. Howard	Raw Water Intake	1,415,000	48
Charles F. Smith	Water Lines	1,430,976	30
Charles F. Smith	Water Lines	1,216,444.25	77
Blythe Brothers	Water Lines	1,282,899.15	81
Columbus Contractors	Water Lines	695,215	62
Brown Steel Co.	Elevated Tank	378,901.50	16
Blue Contracting Co.	Water Lines	331,738.10	0
Total		11,012,140.60	39.5%

% Construction completed as of March 15, 1975

$= \frac{4,353,712}{11,012,140} = 39.5\%$


VANCE
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HALIFAX
NORTHAMPTON
EDGECOMBE
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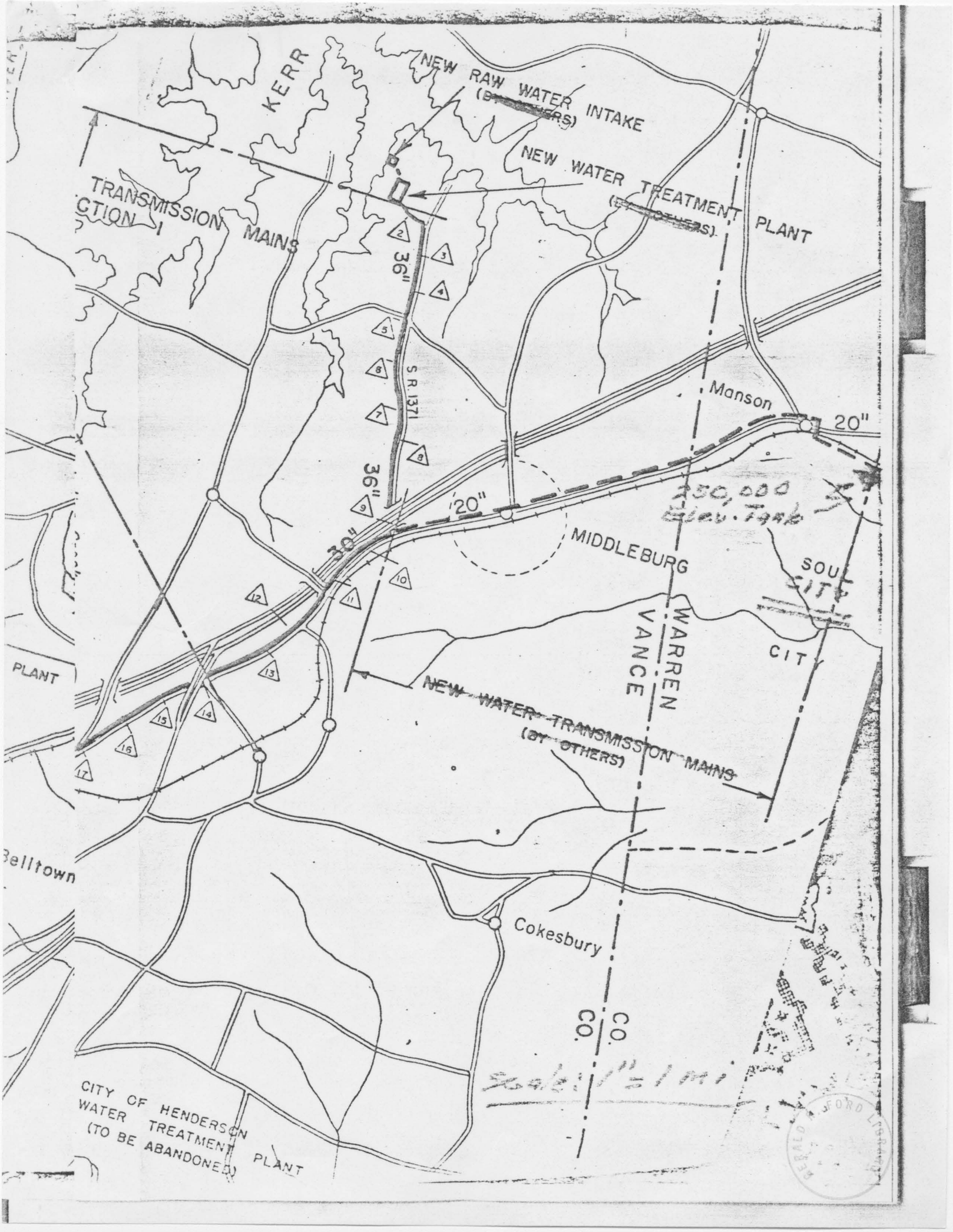
HARNETT
SAMPSON
LENOIR
DURHAM
WAKE
Henderson
Raleigh
Durham
Rocky Mount
Wilson
Goldsboro
Kinston
Smithfield
Roanoke Rapids
Tarboro
Louisburg
Franklinton
Zebulon
Garner
Clayton
Benson
Dunn
Erwin
Lillington
Fuquay-Varina
Willow Springs
Angier
Four Oaks
Selma
Princeton
Pikeville
Mount Olive
Warsaw
Battleboro
Scotland Neck
Enfield
Halifax
Weldon
Roanoke Rapids
Seaboard
Coast Line
Southern
Norfolk
Atlantic
Seymour Johnson Air Base
Lake Gaston
Kerr Res.
Lake Wheeler
Neuse
Cape Fear


KERR
NEW RAW WATER INTAKE
(BY OTHERS)
NEW WATER TREATMENT
(BY OTHERS)
PLANT
TRANSMISSION
MAINS
36"
S.R. 1371
Manson
20"
250,000
Elev. Tank
MIDDLEBURG
SOU
CIT
WARREN
VANCE
CIT
PLANT
NEW WATER TRANSMISSION MAINS
(BY OTHERS)
Belltown
Cokesbury
CO.
CO.
CITY OF HENDERSON
WATER TREATMENT PLANT
(TO BE ABANDONED)

THE WHITE HOUSE

WASHINGTON

August 1, 1975

MEMORANDUM FOR: JIM CAVANAUGH

FROM: PAUL LEACH Paul

SUBJECT: Soul City

To update you on Soul City, Bob Hitt reports that EDA is "comfortable" with the progress of the $2 million part of the project which they are financing. Art Quern reports that CSA (confidentially) is phasing out their support over FY 1976.

Let's talk about what to do with this one.

THE WHITE HOUSE

WASHINGTON

August 5, 1975

MEMORANDUM FOR: JACK MARSH

THROUGH: JIM CAVANAUGH

FROM: PAUL LEACH

SUBJECT: Soul City

The following information has been gathered to provide you with a basis for responding to Senator Jesse Helms on the Soul City situation.

Attached are reports on this project from Bob Hitt, Secretary Morton's Assistant at Commerce (Tab A) and Otto Stolz at HUD's Community Development Corporation (Tab B). The other agencies provided information by telephone.

HUD is making no new disbursements of grant moneys until the GAO audit is completed.

OMBE (at Commerce) has investigated the allegations and found that there was no conflict of interest. OMBE is continuing to fund Soul City.

In addition, the EDA (at Commerce) has financed about $2 million of this project (public facilities, sewers, etc.) and is reportedly "comfortable" with the progress.

The Community Services Administration (old OEO) has indicated confidentially that FY 1976 grant of about $40,000 will be a "phase out" grant with no more to follow.

HEW (primarily the Public Health Service) has put about $1.2 million into the project and has nothing bad to report.

REPORT OF THE COMPTROLLER GENERAL OF THE UNITED STATES

Information On The New Community Of Soul City, North Carolina

Multiagency

This report contains the results of GAO's review of the financing and operations of the new community of Soul City, North Carolina--the project's history; current status; and sources and amounts of Federal, State, and local financial aid going directly to Soul City or to the surrounding municipalities for the benefit of Soul City.

The report also contains the results of GAO's examination into allegations relating to the project and its test of the allowability of expenditures of four Soul City organizations.

RED-76-52

DEC. 18, 1975

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

B-183353

The Honorable L. H. Fountain
House of Representatives

Dear Mr. Fountain:

In accordance with your March 5, 1975, request and the agreement reached with your office on March 12, 1975, we examined the financing and operations of the new community of Soul City, North Carolina. Specifically, we obtained information on the project's history, current status, and sources and amounts of Federal, State, and local financial aid going directly to Soul City or to the surrounding municipalities for the benefit of Soul City. We also examined various allegations relating to the project and tested the allowability of expenditures of four Soul City organizations.

As you requested, we obtained oral comments on the results of our review from the various Federal agencies and from the Soul City organizations and have incorporated them in the report.

The results of our review are summarized below and are discussed in greater detail in the appendix.

HISTORY AND STATUS

Soul City, located in Warren County, North Carolina, is one of 15 active new community developments authorized by title VII of the Housing and Urban Development Act of 1970. The Soul City project was first announced in January 1969 by Mr. Floyd B. McKissick, president of Floyd B. McKissick Enterprises, Inc. A preapplication for a Federal loan guarantee was submitted to the Department of Housing and Urban Development (HUD) on April 1, 1969, and the final application was submitted on February 24, 1971. HUD's offer of commitment for a loan guarantee was granted in June 1972.

The project agreement--a contract with HUD which incorporates all the legal, financial, and program arrangements for the new town development--was completed in February

1974. The project agreement provided that the developer could issue up to $14 million of debentures which the Government would guarantee.

Soul City's development using federally guaranteed funds began in March 1974 when The Soul City Company, the developer, sold $5 million of debentures. Subsequent issues are contingent upon the developer's meeting certain special conditions spelled out in the project agreement.

There are five other federally assisted organizations at Soul City--the Warren Regional Planning Corporation (WRPC); the Soul City Foundation, Inc.; HealthCo, Inc.; the Soul City Utilities Company; and the Soul City Sanitary District. Other major organizations at Soul City are Floyd B. McKissick Enterprises, Inc., McKissick Soul City Associates, and the Madison and McKissick Development Company, Inc. (See pp. 12 to 18.)

As of March 1975, 27 Federal grants, contracts, and agreements; 1 loan; and 1 loan guarantee, totaling $19.2 million, had been reserved or set aside for those six organizations. Of that amount, $10.2 million had been awarded and $4.6 million had been spent. In addition, the Soul City project benefited from Federal grants totaling $6.9 million that had been awarded to State, county, and local governmental units and to a private contractor. (See pp. 19 to 32.)

As of August 1975 physical development at Soul City was essentially on target, considering that the loan guarantee with the prime developer, The Soul City Company, was signed about 18 months earlier.

The following were either under construction or in the design stages as of August 1975.

--Construction began on an interim water system in April 1975. The system is to supply water until the regional water system is in operation.

--An areawide waste water treatment study is underway, and plans for the regional system are to be completed late in the fall of 1975.

--Construction began on an industrial fire protection system in April 1975. The system is being built in conjunction with a small lake adjoining the industrial park.

--Final design has been completed on the underground utilities. The clearance of the right-of-way was completed in February 1975, and construction is scheduled to start soon.

--The major roads for Village I are now under construction and are nearing completion.

In addition, an industrial building (Soultech I) is almost finished, and Soul City will be a major participant in a regional water system now under construction.

ALLEGATIONS RELATING TO THE SOUL CITY PROJECT

In accordance with agreements reached with your office, we examined various allegations relating to preferential treatment in providing Federal assistance, interlocking directorships and nepotism, lack of progress, and poor management practices.

Preferential treatment in providing Federal assistance

We wanted to determine whether the Federal agencies had followed their normal procedures in awarding and monitoring the grants, contracts, and agreements; the loan; and the loan guarantee to Soul City organizations, and if not, the reasons for their deviation.

We noted that one agency had awarded a contract before it established procedures for reviewing and approving such a contract. We noted also that, although the other agencies had established procedures, several had deviated from them in awarding or administering the grants, contracts, a loan, and a loan guarantee that benefited the Soul City project.

1. Deviations from or lack of established review and approval procedures

The Office of Minority Business Enterprise (OMBE), Department of Commerce, had not established contract review and approval procedures before it awarded a $190,000 letter contract to WRPC in February 1972. OMBE officials told us that the Congress first appropriated program funds for OMBE in January 1972. At that time OMBE was considering funding 17 proposals, 1 of which was a WRPC proposal. The official said that, although review and approval procedures had not been established, the Secretary of Commerce wanted to obligate the program funds before the end of the fiscal year. (See pp. 34 to 38.)

The Community Services Administration (CSA) approved and funded two grants to the Soul City Foundation in May 1973 and July 1974 for $502,875 and $93,000, respectively, before the grants had progressed through their normal review and approval process. According to CSA officials, the grant proposals were not reviewed in accordance with normal procedures because CSA headquarters determined that the proposals should be approved and funded before the review and approval process was completed. As a result the review process was limited to determining whether the necessary documentation was in order and whether the proposed activities could be funded under the act. (See pp. 38 to 42.)

2. Grants and loans awarded after the programs were terminated

HUD approved basic water and sewer grants and a public facility loan totaling about $3.5 million after the Secretary of HUD announced that the water and sewer facilities grant program and public facilities loan program would end on January 5, 1973.

The Secretary of HUD told HUD regional and area offices that no water and sewer grants or public facility loans would be approved after January 5, 1973, unless (1) the project application had been rated under the community development project-rating system, (2) the application had been determined to be fundable in relation to other applications and to funds on hand, (3) funds had been reserved for the project, and (4) the project applicant had been notified of approval, in writing, on or before January 5, 1973.

The grant and loan applications did not meet the above criteria which would have allowed HUD to approve and award the grants and loan after the termination date. HUD officials agreed that the applications did not meet the criteria. However, it was their opinion that HUD had a moral obligation to fund the water and sewer grants because in 1972 HUD issued an offer of commitment for guaranteed assistance to the new community of Soul City. HUD successfully appealed to the Office of Management and Budget for release of water and sewer funds for several new community projects, including Soul City. (See pp. 55 to 60.)

3. Special restrictive conditions imposed on Soul City developer

HUD recognized that there were considerable risks inherent in developing Soul City because it was the first

free-standing, new community and because there was no established industrial base in the vicinity from which it could attract growth.

Because of the risks, HUD imposed restrictive conditions on the developer that it did not impose on other new community developers. The loan guarantee for Soul City was established at $14 million, but the developer was authorized to issue only $5 million of debentures initially. Before it could issue additional debentures, the developer was required to meet certain conditions pertaining to industrial development, land sales, and onsite construction. (See p. 51.)

4. Relaxation of normal requirements for Soul City developer

HUD relaxed other conditions normally imposed on new community developers, and as a result, Soul City's debt-to-equity ratio may increase to 9:1, rather than the normally required ratio of 4:1, unless the developer is required to contribute additional equity when it issues additional debentures. HUD officials said that the developer, when it issues additional debentures, probably will be required to contribute additional equity.

HUD requires that the security requirement for a loan guarantee be at least 110 percent of the outstanding obligations at any one time. For Soul City, the security requirement was $5.5 million and the collateral used to meet the requirement consisted of investments, real property, land development costs, and proceeds from the sale of the guaranteed obligations. If the value of the collateral account exceeds the security requirement, the developer can draw down the excess from the escrow account.

The basis used in computing the amount of land development costs included in Soul City's collateral account differed from that normally used for other new communities. HUD's normal procedure provides that, if the developer owns all the project land, all land development costs be included in the collateral account. However, if the developer does not own all the project land, as is the case with Soul City, only the land development costs directly related to the land owned are included in the collateral account. In addition, an allocated portion of the costs incurred for land development that are applicable to the total project, such as administrative costs, legal fees, and planning costs, is included in the collateral account.

HUD's deviation from normal procedures permitted the developer to include about 66 percent of the land development costs in the collateral account rather than the 40 percent that would have been allowed if normal procedures had been followed. For example, in March 1974 the developer was permitted to draw down an additional $417,000.

HUD officials said that it would not have been equitable to apply the normal allocation formula because the developer owned a relatively small part of the total planned project and because its ability to draw down funds from the escrow account would have been hampered. (See pp. 52 to 54.)

Interlocking directorships and nepotism

A number of allegations dealt with interlocking directorships among organizations at Soul City and with nepotistic practices of hiring family members in management positions.

We found that the allegations related to interlocking directorships and the hiring of family members by management officials were correct. However, nothing in the rules, regulations, or grant and contract provisions governing the awards made by Federal agencies prohibited interlocking directorships. Some grants did prohibit hiring family members to work within the same department of an organization. None of the family members hired worked in the same department. The family members hired had the education and experience to qualify them for their jobs. (See pp. 60 to 65.)

Lack of progress and poor management practices

Some of the allegations made related to the lack of progress and poor management practices of three of the Soul City organizations.

1. HealthCo, Inc.

HealthCo, Inc., was faulted for (1) having spent an inordinately large amount before opening its doors to the public and (2) not having treated an acceptable number of patients since starting operations. We found the allegations to be essentially correct, but time has altered some of the conditions. (See pp. 66 to 68.)

HealthCo's first Federal grant from the Office of Economic Opportunity was effective July 1, 1972. The grant provided for a 14-month preparation period--to September 1,

1973--and a 4-month operational period beginning September 1, 1973. However, it was not until August 5, 1974, that HealthCo began seeing patients.

Part of HealthCo's problem in getting started stemmed from its inability to obtain the Public Health Service's approval of the clinic until the permanency of Soul City was reasonably insured by the March 1974 HUD bond closing with The Soul City Company. However, notwithstanding this uncontrollable restraint, the Public Health Service rated HealthCo's performance as poor.

HealthCo's efforts to obtain a permanent building have changed radically. The building size has been scaled down from 16,000 square feet to about 7,000 square feet, and the estimated cost has been reduced from $500,000 to $220,000. (See p. 63.)

In August 1974, when it opened, the HealthCo clinic treated an average of seven patients a day. This same workload level prevailed through December 1974. From August through December 1974, the average patient-visit cost was $258. By May 1975 the clinic was treating 31 patients a day, and the workload remained at that level through August 1975. In August 1975, with such a patient load, the patient-visit cost was about $44, after deducting fees collected from patients and third-party payments. The clinic staff consisted of 2 full-time physicians, 1 full-time dentist, 2 family-nurse practioners, and 18 other support and administrative employees.

2. Warren Regional Planning Corporation

WRPC was faulted for its

--Failing to recruit industry for Soul City.

--Making improper loans to Floyd B. McKissick Enterprises, Inc.

--Paying for a life insurance policy on Floyd McKissick after he was no longer WRPC's director.

--Receiving $274,000 for legal and other services to support the profit-seeking organization, Floyd B. McKissick Enterprises, in its quest of Federal backing for its bond sale. These expenditures may have been included in Soul City Company's predevelopment costs.

WRPC contracts did not specifically require recruiting of industry. However, WRPC did try, unsuccessfully, to recruit industry for Soul City.

WRPC made improper loans of about $27,000 to Floyd B. McKissick Enterprises before HUD's backing of a bond sale for The Soul City Company--Floyd B. McKissick Enterprises' successor in the development undertaking. The loans were repaid as soon as the bond proceeds were received. WRPC also improperly paid Mr. McKissick's travel expenses and continued paying insurance premiums on his behalf after he resigned as WRPC's director.

OMBE amended WRPC's contract in June 1973 to authorize $274,000 for direct support of Floyd B. McKissick Enterprises' efforts to obtain final Federal backing of The Soul City Company's bonds. Our review showed that WRPC spent about $223,000 for this purpose.

Although it is true that the $223,000 directly supported a profit-seeking company, it was not included in the predevelopment costs The Soul City Company claimed, nor was it used as a basis for increasing the stated value of the owner's equity in Soul City properties or for drawing down proceeds of bond sales. (See pp. 68 to 71.)

Soul City Foundation, Inc.

It was alleged that Soul City Foundation, Inc., received a $90,000 grant for the purpose of seeking more Federal moneys. We found that seeking more Federal moneys was only one of four activities under the particular grant and that the grantee incurred costs for other activities covered by the grant. (See p. 71.)

ALLOWABILITY OF EXPENDITURES OF SOUL CITY ORGANIZATIONS

Using statistical-sampling techniques, we selected 349 expenditure transactions from The Soul City Company, Soul City Foundation, WRPC, and HealthCo and sought to determine whether these expenditures had been made in accordance with the terms and provisions of the grant, contract, or loan guarantee and whether they were adequately supported by documentation. We also sought to verify that the goods or services procured had been received and had been used for their intended purposes. For this test, we excluded compensation paid to employees of the Soul City organizations. We made an additional test of payroll transactions, the results of which are shown on page 83. Of the 349

transactions, 86, or about 25 percent, did not meet 1 or more of the tests for allowability. Of the 86 errors, 67 related to the lack of adequate documentation supporting the expenditure transaction. On the basis of our projection, at a 95-percent confidence level, the number of transactions in the universe which failed to meet 1 or more of the tests for allowability ranged from 1,063 to 1,926.

We also selected a judgment sample of expenditure transactions on the basis of the nature and size of the expenditures and their relation to our areas of interest. Using the same criteria for allowability as we used in the statistical sample, we found that 39, or about 35 percent, of the 113 selected transactions did not meet 1 or more of the tests for allowability, as shown below. Of the 39 errors noted, 29 related to expenditures that had not been made in accordance with the provisions of the grants or contracts. Our examination of HealthCo's and WRPC's records and accounts indicated recent improvements but confirmed a need for a more businesslike approach to purchasing and recordkeeping.

The following table shows the dollar value of expenditure transactions included in our samples and the value of those transactions which we found to be questionable. A detailed breakdown by the four Soul City organizations is shown on pages 77 to 79.

Dollar Value of Questionable Transactions in Samples

	Statistical sample	Judgment sample
Number of transactions sampled	349	113
Dollar value of transactions sampled	$802,000	$354,400
Number of transactions:		
Not in compliance with grant provisions	17	29
Lacking adequate documentation (note a)	67	10
Goods or services not received	2	-
Total	86	39
Dollar value of questionable transactions (note b)	$ 44,331	$ 51,883

[a]Documentation was not adequate for only part of the expenditures in some cases.

[b]In some cases only part of the transactions were questioned.

Typical examples of expenditures not made in accordance with contract or grant provisions and of the lack of adequate documentation for expenditures are

--payments to Mr. McKissick for travel expenses incurred after he resigned from WRPC,

--loans to Floyd B. McKissick Enterprises and payments for consultant services without prior approval of the agency responsible for administering the contract,

--interest and penalty payments to the Internal Revenue Service and to the North Carolina Department of Revenue for late payment of employee withholding taxes, and

--numerous payments for travel expenses without sufficient support for the amounts claimed.

CONCLUSIONS

--As of August 1975 the physical development of Soul City was essentially on target. Although the idea for a new community was conceived in 1969 and the final application was made to HUD in 1971, it was not until early in 1974 that the loan guarantee was finally executed. Therefore the project, for all practical purposes, has been in existence for only about 18 months. Because the project was in its initial stages, most of the accomplishments were not visible in terms of shops and houses but were evidenced by more basic amenities, such as roads, utilities, and social services, required for the new community.

--HUD deviated from its established procedures in awarding or administering grants, a loan, and a loan guarantee in that it made awards after the programs were terminated, it relaxed certain conditions which are normally imposed on the awardee, and in one instance it imposed more restrictive requirements on the awardee.

--CSA deviated from its established procedures in that it made awards before the normal review and approval process was completed.

--Although interlocking directorships and the hiring of family by management officials did exist within and among the Soul City organizations, these relationships were not prohibited by the rules, regulations, or contract provisions governing the awards made by the Federal agencies. Furthermore the agencies were aware of these relationships.

--Many expenditure transactions by WRPC, HealthCo, and the Soul City Foundation were not in accordance with grant or contract provisions or lacked adequate supporting documentation.

RECOMMENDATIONS

In view of the serious questions our review raised of expenditure transactions of the Soul City organizations and the planned expenditures of millions of dollars of Federal funds by these organizations for the Soul City project, we recommend that the Secretaries of HUD, HEW, and Commerce and the Director of CSA:

--Determine the allowability of grant and contract expenditures made to date and recover all unallowable expenditures.

--Insure that adequate controls exist to prevent such unallowable expenditures in the future.

Sincerely yours,

Comptroller General
of the United States

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ABBREVIATIONS

CPA	certified public accountant
CSA	Community Services Administration
EDA	Economic Development Administration
FHWA	Federal Highway Administration
GAO	General Accounting Office
HEW	Department of Health, Education, and Welfare
HUD	Department of Housing and Urban Development
NCA	New Communities Administration
NEA	National Endowment for the Arts
OE	Office of Education
OEO	Office of Economic Opportunity
OMBE	Office of Minority Business Enterprise
PHS	Public Health Service
WRPC	Warren Regional Planning Corporation

INFORMATION ON THE NEW COMMUNITY OF SOUL CITY, NORTH CAROLINA

NEW COMMUNITIES PROGRAM

Title IV of the Housing and Urban Development Act of 1968 (42 U.S.C. 3901, et seq.) and title VII of the Housing and Urban Development Act of 1970 (42 U.S.C. 4511, et seq.) established the Department of Housing and Urban Development's (HUD's) new communities program. The program encourages new community development by providing financial assistance to private and public developers. The developers must satisfy a broad range of economic, social, environmental, and governmental objectives to obtain financial assistance.

Title IV provided for $250 million in Federal loan guarantees to new community developers for buying and developing land. The guarantee was limited to $50 million for each project. Title IV also established a program for supplemental grants to State and local public bodies associated with new communities for public facilities, such as water and sewer systems.

Title VII expanded the Federal Government's commitment to the new communities program by doubling the loan guarantee ceiling to $500 million. It also provided for technical assistance to help new developers plan and carry out new community projects. Public Law 93-117, enacted October 2, 1973, increased the loan guarantee ceiling to $695.5 million. The $50 million limit for each project remained in effect.

With the Federal Government's guaranteeing their obligations, developers can borrow long-term private capital at considerably lower interest rates than would otherwise be possible. The federally guaranteed loan funds can be used for land acquisition and for such land development activities as installing water, sewer, and utility lines and constructing roads and sidewalks. However, these funds cannot be used to build residential, commercial, and industrial structures.

HUD's New Communities Administration (NCA) administers the new communities program. NCA reviews applications to determine whether proposed new community projects meet legislative goals and conform to HUD's regulations. After these reviews, NCA reports its findings and recommendations to the Community Development Corporation's Board of Directors. The seven-member Board consists of the Secretary of HUD, five persons appointed by the Secretary, and a General Manager appointed by the President of the United

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States. The General Manager is NCA's Administrator. The Board decides whether an offer of commitment should be made to the developer.

When the Board makes an offer, HUD issues a letter of commitment to the developer providing for a Federal guarantee on a specified loan amount, if the developer meets certain conditions. For example, the developer must prepare plans for affording equal housing and employment opportunities, for encouraging small builders to participate, and for developing the land. After the developer meets these conditions, HUD and the developer enter into a project agreement. HUD requires the developer to enter into a trust indenture with a bank which acts as a trustee for the proceeds from the sale of the guaranteed obligations. The trust indenture and project agreement set forth the requirements and restrictions relating to the federally guaranteed obligations, the developer's general equity and financial reporting requirements, and the Government's rights and remedies in case the developer defaults on the obligations.

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HISTORY AND STATUS OF SOUL CITY PROJECT

Soul City, located in Warren County, North Carolina, is one of 15 active new community developments authorized under title VII of the Housing and Urban Development Act of 1970. The maps on pages 4 and 5 show Soul City's location and its present and proposed boundaries.

HISTORY

The Soul City project was first announced in January 1969 by Mr. Floyd B. McKissick, president of Floyd B. McKissick Enterprises, Inc.

A preapplication was submitted to HUD on April 1, 1969. The preapplication process requires the developer to present general overall plans for the proposed project. Even though general in nature, the plans must be based on sound urban planning and economic feasibility before HUD will invite a formal, and much more extensive, final application.

A final application for a $10 million loan guarantee was submitted February 24, 1971. HUD made a thorough review of the Soul City application and approved it in June 1972. HUD engaged an independent consultant to review the studies submitted with the application and to make additional feasibility studies. The consultant recommended that Soul City's loan guarantee be at least $14 million. In June 1972 HUD sent a letter of commitment to Floyd B. McKissick Enterprises, Inc. (the project sponsor) for a loan guarantee of $14 million for Soul City's land acquisition and land development. In February 1974 HUD and The Soul City Company (the project developer) completed the project agreement.

The project agreement is a contract between The Soul City Company and HUD that incorporates all the legal, financial, and program arrangements for the new community development, as well as a 30-year development plan. The project agreement had to be completed and signed before any bonds could be sold. The agreement was signed on February 26, 1974.

The first bonds ($5 million) were sold on March 6, 1974. The $5 million bond issue must be retired by The Soul City Company. The HUD guarantee assures the lenders that, if The Soul City Company defaults, the Federal Government will pay off the bonds and the accumulated interest due.

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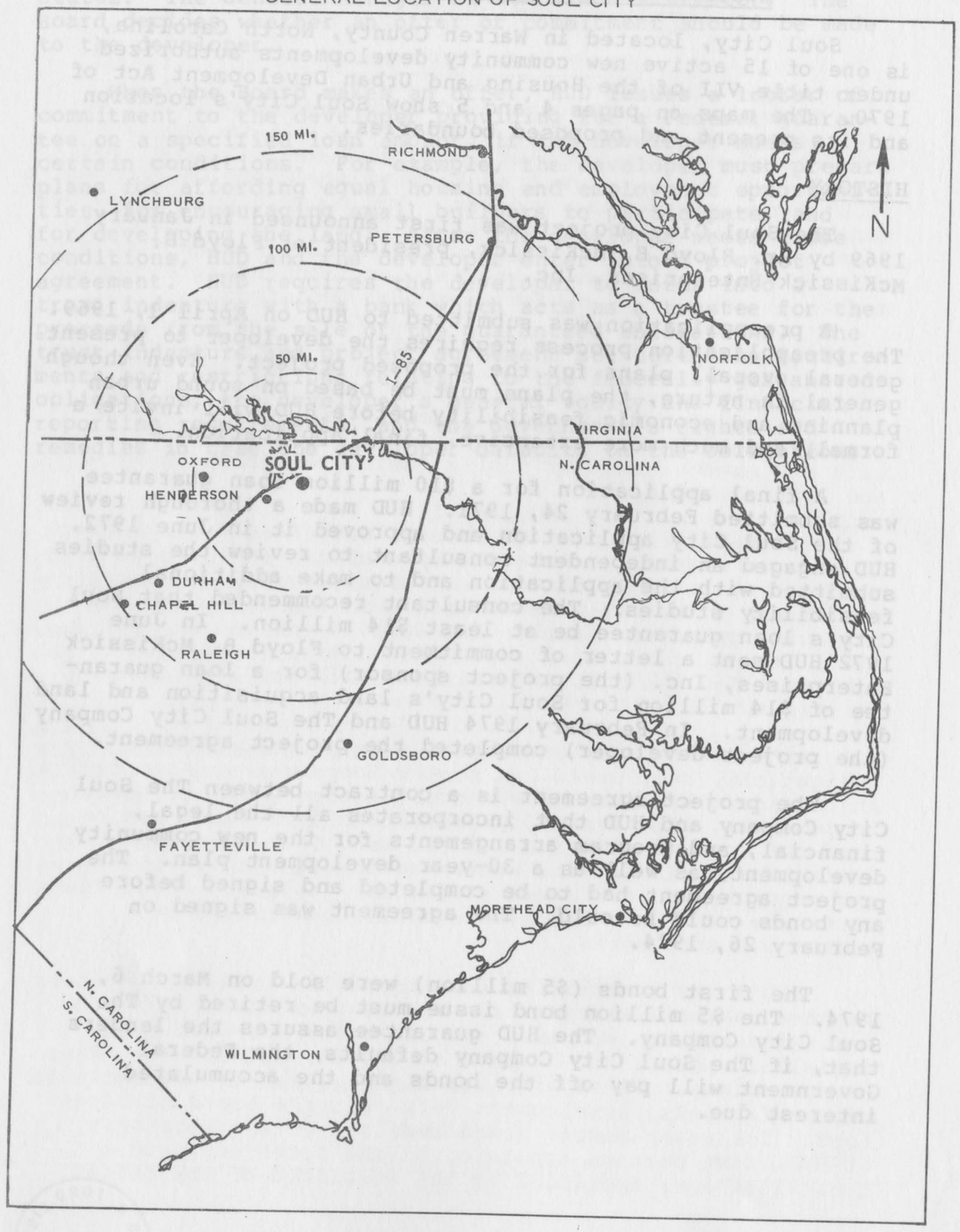
GENERAL LOCATION OF SOUL CITY



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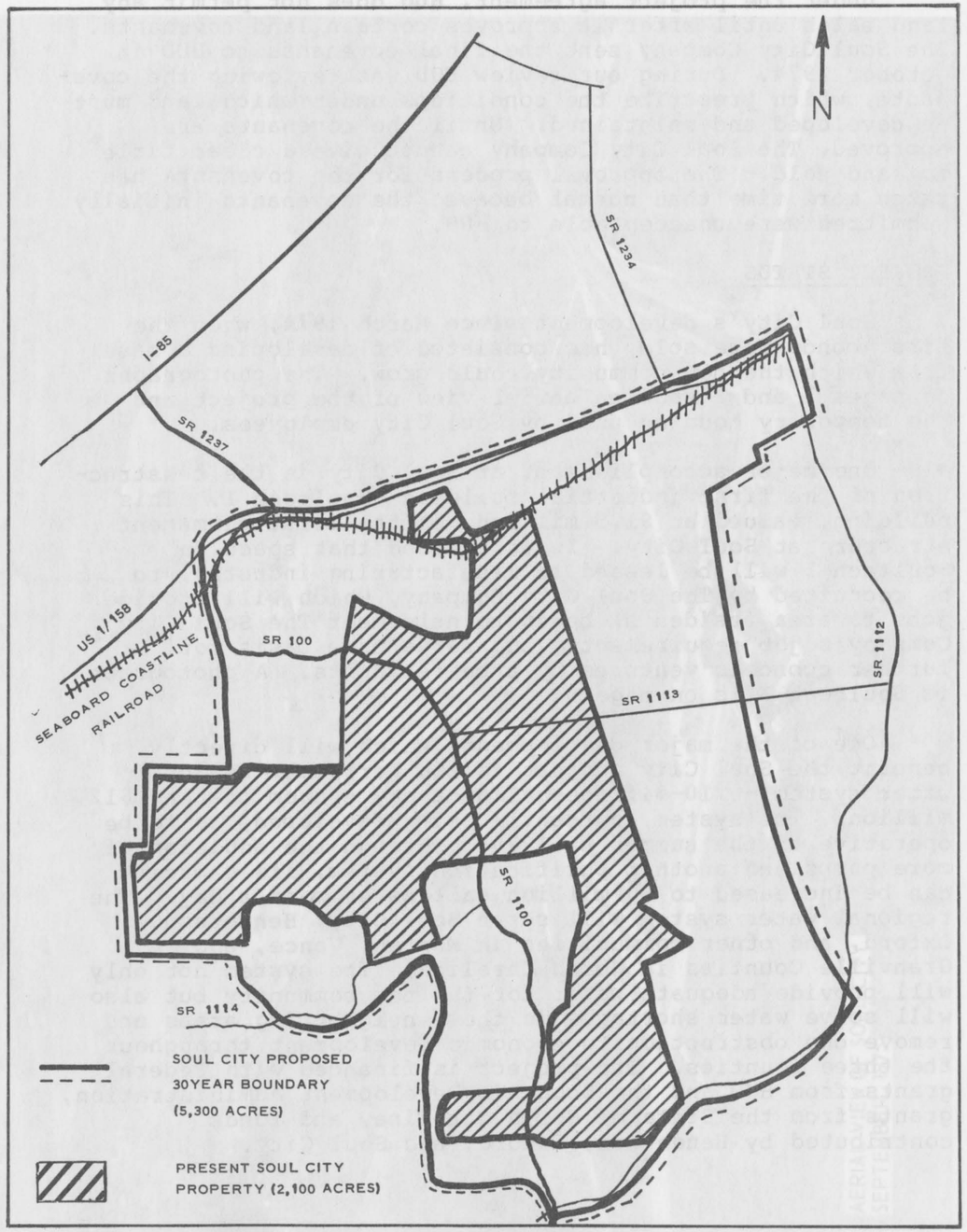
PRESENT AND PROPOSED BOUNDARIES OF SOUL CITY



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Under the project agreement, HUD does not permit any land sales until after it approves certain land covenants. The Soul City Company sent the final covenants to HUD in October 1974. During our review HUD was reviewing the covenants, which prescribe the conditions under which land must be developed and maintained. Until the covenants are approved, The Soul City Company cannot give a clear title to land sold. The approval process for the covenants has taken more time than normal because the covenants initially submitted were unacceptable to HUD.

PROJECT STATUS

Soul City's development since March 1974, when the first bonds were sold, has consisted of developing a base from which the new community could grow. The photographs on pages 7 and 8 show an aerial view of the project and the temporary housing used by Soul City employees.

One major accomplishment at Soul City is the construction of the first industrial building--Soultech I. This building, valued at $1.5 million, is the first permanent structure at Soul City. It is planned that space in Soultech I will be leased to manufacturing industry, to be recruited by The Soul City Company, which will provide jobs to area residents, begin to help meet The Soul City Company's job requirements, and serve as a basis for further economic ventures by area residents. A photograph is Soultech I is on page 9.

One of the major developments which will directly benefit the Soul City project is the Kerr Lake regional water system--a 10-million-gallon-a-day system costing $12 million. The system, currently being developed, is to be operative by the summer of 1976. Through the addition of more pumps and another purification system, its capacity can be increased to 20 million gallons or more a day. The regional water system will serve Soul City, Henderson, Oxford, and other communities in Warren, Vance, and Granville Counties in North Carolina. The system not only will provide adequate water for the new community but also will solve water shortages in these neighboring areas and remove one obstruction to economic development throughout the three counties. The project is financed with Federal grants from HUD and the Economic Development Administration, grants from the State of North Carolina, and funds contributed by Henderson, Oxford, and Soul City.

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AERIAL VIEW OF SOUL CITY
SEPTEMBER, 1975

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TEMPORARY HOUSING OF SOUL CITY EMPLOYEES
SEPTEMBER, 1975

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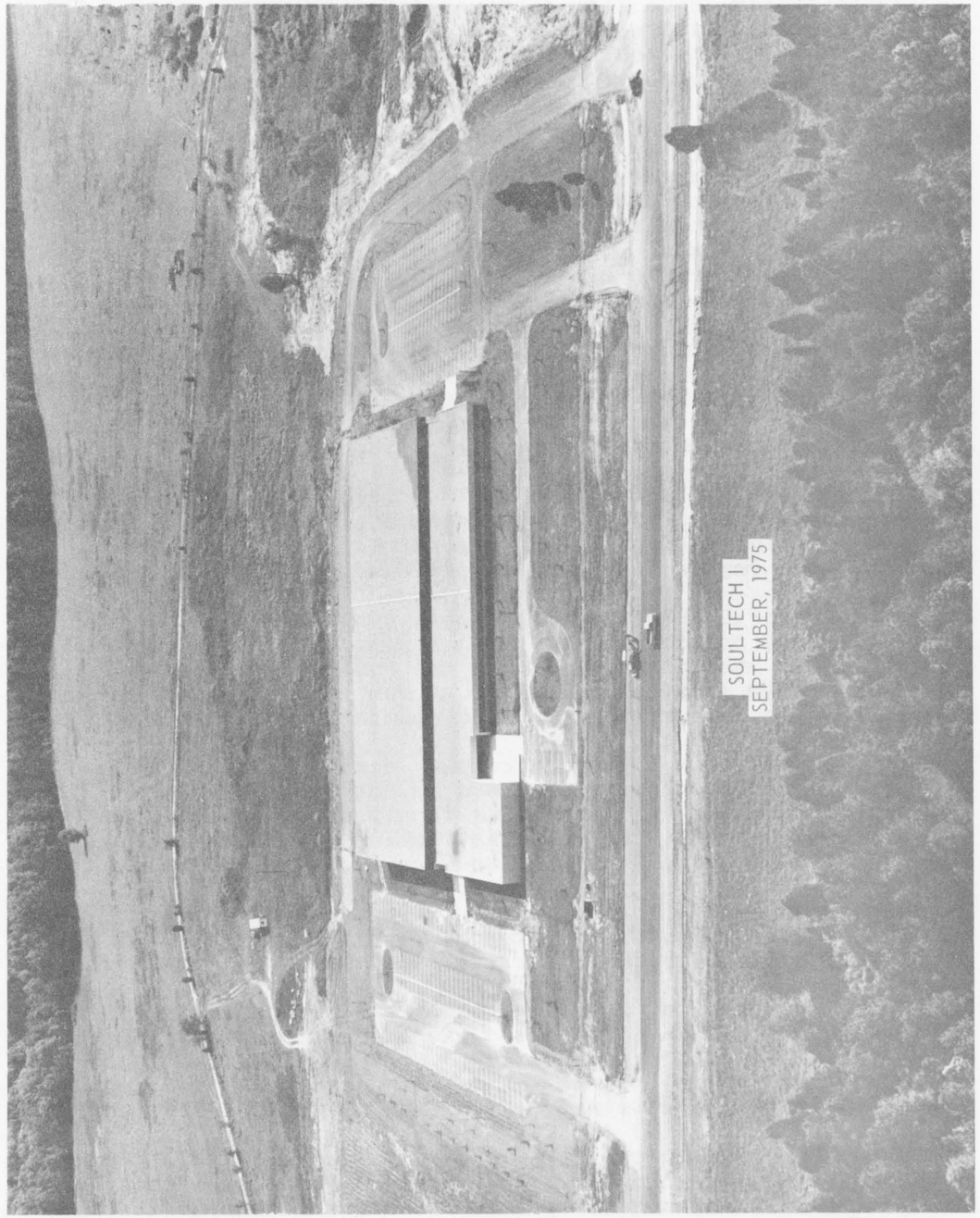

SOULTECH I
SEPTEMBER, 1975

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Because of the time required to complete the regional water system, Soul City needs an interim water system. The interim water system, using three wells, will supply 200,000 gallons a day to Soul City until the regional water system is completed. Construction of the interim system began on April 21, 1975, and is scheduled to be complete before the end of 1975.

In 1974 Soul City proposed construction of an interim sewage treatment plant. In the fall of 1974, the North Carolina Department of Environmental Management approved the interim plant. However, the treated effluent would go into a tributary of a stream which is impounded by Warrenton, North Carolina, for its water supply. Therefore Warrenton officials threatened legal action to halt construction of the plant, which could cause a long delay in the development of Soul City. To resolve this conflict, Soul City; Warrenton; Norlina, North Carolina; and Warren County have completed phase one of an areawide waste water treatment study. The study recommends construction of a regional plant at Warrenton. The plan for the regional system is scheduled for completion late in the fall of 1975. Soul City plans to construct a pipeline to Warrenton and to use Warrenton's existing facility, instead of constructing a plant to use until the regional system is completed.

In April 1975 Soul City began constructing an industrial fire protection system in conjunction with construction of a small lake adjoining the Soul City industrial park. This involves damming a stream that runs through the park and constructing a pumping apparatus.

In May 1974 a utility company began preliminary design of an underground utilities system for Soul City. The initial bulk feeder design was finalized in December 1974, and the agreement for the construction of the underground bulk feeder along Soul City Boulevard was signed in January 1975. The clearance of the right-of-way was completed in February 1975. The utility company has indicated that construction should start in the fall of 1975. Street lights will be installed at the same time.

The North Carolina Department of Transportation is now constructing and/or improving the major roads for Village I (a subdivision of Soul City). Work is scheduled to be completed in the fall of 1975. The department is constructing Soul City Boulevard--a new road which is being cut through the planned industrial park on a right-of-way dedicated for that purpose and which will be the main artery connecting Soul City with U.S. Route 1--and is widening and paving existing secondary roads to serve increased traffic.

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The Soul City Company has a number of other projects which are in the design phase and which are scheduled to be started in 1975-76. They include storm drains, streets, and the first residential subdivision. During the coming year, housing construction is planned after HUD's approval of the land covenants. The Soul City Company plans to market lots for 84 single-family housing units. The company also plans to construct 25 rental units under the section 236 subsidized housing program. As of September 1975 HUD was still reviewing the rental unit proposal.

The Village I activity center now being planned will include commercial, recreational, and social services facilities. Marketing studies for the commercial aspect of this center are underway. Also planned for the center is a community building which will include recreation space, meeting rooms, a day-care facility, and social service offices. Construction of the community center and the first stage of the commercial center is planned to start early in the spring of 1976.

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ORGANIZATIONS AND INTERLOCKING RELATIONSHIPS

In addition to The Soul City Company, the developer of the new town, five other organizations which have received Federal assistance are located at Soul City--the Warren Regional Planning Corporation (WRPC); the Soul City Foundation, Inc.; HealthCo, Inc.; the Soul City Utilities Company; and the Soul City Sanitary District. Other major organizations at Soul City are Floyd B. McKissick Enterprises, Inc.; McKissick Soul City Associates; and the Madison and McKissick Development Company, Inc. A photograph of the temporary facilities housing these organizations is on page 15.

THE SOUL CITY COMPANY

The Soul City Company was created in Feburary 1974 to assume responsibility for developing Soul City. The company is charged with overall responsibility for project coordination and construction. It is a limited partnership organized under North Carolina law. As of March 31, 1975, the company had 25 full-time and 2 part-time employees.

WARREN REGIONAL PLANNING CORPORATION

WRPC is a nonprofit entity incorporated in December 1969. Its initial functions were to develop a general land-use plan for Soul City and to make studies related to the development of the new community and its impact on the State planning region. This work was financed through a HUD 701 planning grant in cooperation with the State of North Carolina and the State Planning Region Council of Governments. WRPC later received an Office of Minority Business Enterprise (OMBE) contract to provide technical assistance in forming The Soul City Company and in developing various documents and studies necessary to obtaining the Federal guarantee for Soul City. Under a new OMBE contract, WRPC is providing technical assistance to minority and disadvantaged business persons in Warren and five other counties. One aspect of this activity involves technical assistance to minority construction firms so that they will have a chance to participate in constructing projects both at Soul City and throughout the region. As of March 31, 1975, WRPC had 12 employees--11 full-time and 1 part-time.

SOUL CITY FOUNDATION, INC.

The Soul City Foundation is a tax-exempt public foundation established in March 1969 to plan and develop social and human services for residents of Soul City and the surrounding areas. The foundation's mission is to (1) plan

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future comprehensive social programs serving Soul City and (2) establish immediate programs to meet the needs of the surrounding area. The foundation has existed mainly on Office of Economic Opportunity grants, with one special project grant from the Department of Health, Education, and Welfare (HEW) and small amounts of additional moneys from private foundations and businesses.

Over the past 4 years, the foundation has operated summer feeding programs for area youth, summer work-study programs, a 1-year program of supplementary education and cultural enrichment for junior high school students, health fairs, and a pilot manpower project. The foundation's major work in the last 18 months has been in (1) planning manpower, education, recreation, cultural arts, and general social studies for residents of Soul City and Vance and Warren Counties and (2) developing the first industrial plant, Soultech I.

The foundation's plans include (1) locating funding sources to support Soul City until it becomes a reality, (2) identifying and planning for future educational, recreational, and social needs, and (3) finding sources of funds to support social activities at Soul City. As of March 31, 1975, the foundation had nine full-time and three part-time employees.

HEALTHCO, INC.

HealthCo was formed in March 1972 to provide health-care services to residents of Warren and Vance Counties. Because of startup problems, the organization did not begin providing health care to patients until August 1974. Operating a temporary clinic, 2 doctors, 1 full-time dentist, 2 family-nurse practitioners, and 18 other employees now provide medical and dental services to approximately 30 patients a day.

Nearly all the patients are rural residents of Vance and Warren Counties. In addition, a home health-care program, sponsored jointly by HealthCo and the foundation, provides skilled nursing services to 25 homebound patients a month in Warren County.

SOUL CITY UTILITIES COMPANY

The Soul City Utilities Company is a nonprofit corporation created in June 1973 to construct waste water treatment facilities for leasing to the Soul City Sanitary District. The construction is to be financed through a HUD public facility loan to the utilities company and loans and grants from The Soul City Company. The utilities company

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has one employee who currently is paid by The Soul City Company. As of March 31, 1975, the utilities company had not received any of the $500,000 public facility loan funds.

SOUL CITY SANITARY DISTRICT

The Soul City Sanitary District is a limited form of local government which will serve Soul City residents at least until the new community is incorporated. Established by the Warren County Board of Commissioners in May 1973, the sanitary district is governed by a three-member board originally appointed by the Warren County Board of Commissioners and reelected by Soul City residents in November 1974. The district is authorized under State statutes to operate sewage and water treatment plants, handle garbage and solid waste collection and disposal, establish a fire department, levy taxes, and issue bonds to support its operations. The sanitary district will own and operate the water and sewage facilities and fire protection system now being constructed at Soul City. The sanitary district does not have any employees and as of March 31, 1975, had not received any funds from its two approved Federal grants totaling $704,000.

FLOYD B. McKISSICK ENTERPRISES, INC.

McKissick Enterprises was the initial sponsor of the Soul City project. It contemplates being involved in a broad spectrum of development activities and construction at Soul City. McKissick Enterprises owns all the limited-partnership interest in McKissick Soul City Associates and is a general partner in The Soul City Company. The corporation also owns several mobile homes, office trailers, motor vehicles, and other personal property which it leases to other companies in Soul City.

McKISSICK SOUL CITY ASSOCIATES

McKissick Soul City Associates is a limited partnership formed for the dual purpose of owning a limited-partnership interest in The Soul City Company and of borrowing funds to contribute as equity in The Soul City Company.

MADISON AND McKISSICK DEVELOPMENT COMPANY, INC.

Madison and McKissick Development Company, Inc., is a corporation organized to design and develop a clinic for HealthCo to use.

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INTERLOCKING RELATIONSHIPS

Certain key individuals serve as officers and/or are on the board of directors for more than one of the Soul City organizations.

Following is a diagram depicting and a description of interlocking relationships as of March 31, 1975.

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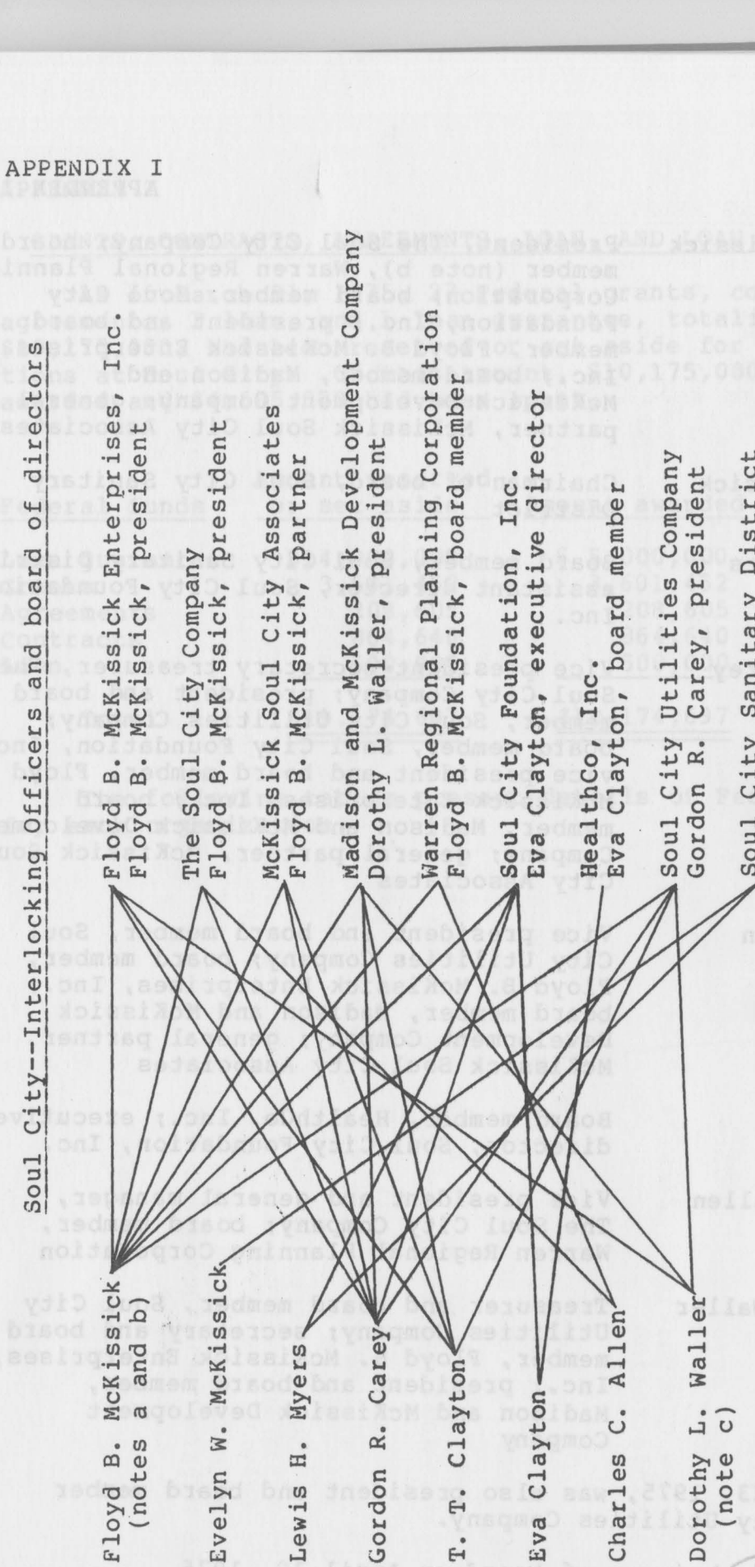

a
Resigned from HealthCo board on March 26, 1975.
b
Resigned from Soul City Utilities Company board on May 23, 1975.
c
Became treasurer and board member of Soul City Utilities Company on May 23, 1975.

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Floyd B. McKissick (note a)	President, The Soul City Company; board member (note b), Warren Regional Planning Corporation; board member, Soul City Foundation, Inc.; president and board member, Floyd B. McKissick Enterprises. Inc.; board member, Madison and McKissick Development Company; general partner, McKissick Soul City Associates
Evelyn McKissick	Chairman of board, Soul City Sanitary District
Lewis H. Myers	Board member, Soul City Sanitary District; assistant director, Soul City Foundation, Inc.
Gordon R. Carey	Vice president-secretary treasurer, The Soul City Company; president and board member, Soul City Utilities Company; board member, Soul City Foundation, Inc.; vice president and board member, Floyd B. McKissick Enterprises, Inc.; board member, Madison and McKissick Development Company; general partner, McKissick Soul City Associates
T. T. Clayton	Vice president and board member, Soul City Utilities Company; board member, Floyd B. McKissick Enterprises, Inc.; board member, Madison and McKissick Development Company; general partner, McKissick Soul City Associates
Eva Clayton	Board member, HealthCo, Inc.; executive director, Soul City Foundation, Inc.
Charles C. Allen	Vice president and general manager, The Soul City Company; board member, Warren Regional Planning Corporation
Dorothy L. Waller	Treasurer and board member, Soul City Utilities Company; secretary and board member, Floyd B. McKissick Enterprises, Inc.; president and board member, Madison and McKissick Development Company

[a]Until May 23, 1975, was also president and board member of Soul City Utilities Company.

[b]Resigned as chairman of board on April 10, 1975.

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GRANTS, CONTRACTS, AGREEMENTS, LOAN, AND LOAN GUARANTEE

As of March 31, 1975, 27 Federal grants, contracts, and agreements; 1 loan, and 1 loan guarantee, totaling $19,175,000, had been reserved or set aside for six organizations at Soul City. Of this amount, $10,175,000 had been awarded and $4,665,000 had been spent.

Federal funds	Amount reserved or set aside	Amount awarded	Amount spent
Loan guarantee	$14,000,000	$ 5,000,000	$1,921,721
Grants	3,601,452	3,601,452	1,781,267
Agreements	208,605	208,605	208,605
Contracts	864,640	864,640	753,531
Loan	500,000	500,000	-
Total	$19,174,697	$10,174,697	$4,665,124

The following tables present details of Federal funding for each organization.

The Soul City Company

Government agency	Date	Status of funds as of March 31, 1975 (note a) Awarded	Spent	Purpose
HUD--New Communities Administration	2/26/74	[b]$14,000,000	$1,921,721	Loan guarantee for land acquisition and development.

[a]As of August 7, 1975, the following proposals had been submitted to, but not approved by, the grantor.

--Request for grant funds totaling $4,033,612 from HUD's New Communities Administration for various purposes, such as parks and recreation.

--Request for grant funds totaling $28,032 from the Department of Transportation's Urban Mass Transportation Administration for a mass transit study.

--An affiliate of The Soul City Company has applied to HUD for a mortgage insurance commitment for 25 units of subsidized housing (section 236).

[b]As of March 31, 1975, The Soul City Company had been authorized to issue only $5 million of debentures. The $5 million of debentures were issued March 6, 1974.

Warren Regional Planning Corporation

Government agency	Date	Status of funds as of March 31, 1975 (note a) Awarded	Spent	Purpose
HUD, through the State of North Carolina	9/28/70 12/31/70	$ 112,605	$112,605	Agreement for planning Soul City.
HUD, through the State of North Carolina	3/10/72	96,000	96,000	Agreement for comprehensive planning of Soul City and five surrounding counties.
Department of Commerce, OMBE	5/26/72	531,500	531,164	Contract to plan, promote, and develop an industrial program for Soul City.
OMBE	6/29/74	333,140	222,367	Contract to increase the number of minority businesses and strengthen existing minority businesses in Soul City and surrounding counties.
Total		$1,073,245	$962,136	

[a]On July 30, 1975, during our review at Soul City, OMBE awarded a contract for $320,000. This contract is to be a follow-on to the contract dated June 29, 1974.

Soul City Foundation, Inc.

Status of funds as of March 31, 1975 (notes a and b)

Government agency	Date	Awarded	Spent	Purpose
Department of Agriculture, through the Economic Development Corporation	1970-72	$ (c)	$ (c)	Grant for feeder enrichment program during the summer of each year.
Department of Labor, Neighborhood Youth Corps, through Henderson community action program	1971-74	(d)	(d)	Grant for summer employment during each year.
Office of Economic Opportunity (OEO), Office of Health Affairs	6/14/71	98,934	98,934	Grant to plan and develop comprehensive health program.
OEO, Office of Program Development	12/11/72	90,000	90,000	Grant for social-planning project.
OEO, Office of Program Development	5/ 9/73	502,875	502,875	Grant for economic development demonstration project.
OEO, Office of Program Development	6/13/74	66,000	66,000	Grant to continue economic development ment demonstration project.
OEO, community development (subcontracted with Franklin, Vance, Warren Opportunity, Inc.)	10/ 3/74	93,000	55,000	Grant for economic development and social-planning project.

Government agency	Date	Awarded	Spent	Purpose
National Endowment for the Arts (NEA)	4/30/73	12,500	12,500	Grant to support planning for a cultural arts program at Soul City.
NEA	11/15/74	9,620	4,246	Grant to support planning for a cultural arts program at Soul City.
HEW, Office of Education	6/22/73	98,220	98,220	Grant to establish learning laboratory.
Department of Labor, through State of North Carolina	9/ 1/74	34,392	11,441	Grant for outreaching recruitment placement program.
Total		$1,005,541	$939,216	

[a]During our review at Soul City, the Community Services Administration awarded a grant for $42,356. This grant is to close out the economic development and social planning grant. In addition, HEW's Administration on the Aging, through Kerr Tar Regional Council of Governments, awarded a grant for $12,756 on August 7, 1975. This grant is for an outreach information referral program.

[b]As of August 7, 1975, a request for grant funds totaling $53.005 from NEA for a cultural arts program had been submitted to, but not approved by, the grantor.

[c]The following number of children were fed under the feeder enrichment program: 1970, 100; 1971, 121; and 1972, 126. Dollar amounts not readily available.

[d]The following number of youths were employed by the Henderson community action program and worked at Soul City: 1971, 27; 1972, 17; 1973, 12; and 1974, 45. Dollar amounts not readily available.

HealthCo, Inc.

Government agency	Date	Status of funds as of March 31, 1975 Awarded	Spent	Purpose
OEO, Office of Health Affairs	6/ 5/72	$1,097.457	$822,816	Grant to establish a comprehensive health-care center (ambulatory) for Warren and Vance Counties.
HEW, Public Health Service	1/16/74	277,206	-	Grant to develop a comprehensive ambulatory health-care center for Warren and Vance Counties.
HEW, Public Health Service	1/21/75	492,183	-	Continuation of the above grant.
HEW, through the Governor's Council on the Aging, North Carolina Department of Human Resources	12/13/73	13,775	13,156	Grant to provide home health care.
HEW, through the Governor's Council on the Aging, North Carolina Department of Human Resources	6/14/74	11,290	6,079	Grant to provide home health care.
Total		$1,891,911	$842.051	

Soul City Sanitary District

Government agency	Date	Status of funds as of March 31, 1975 Awarded	Spent	Purpose
HUD, Community Planning and Development	9/17/73	$500,000	-	Interim water and sewer grant.
HUD, NCA	9/28/73	204,000	-	Same as above.
Total		$704,000	-	

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Soul City Utilities Company

Government agency	Date	Status of funds as of March 31, 1975 Awarded	Spent	Purpose
HUD, Community Planning and Development	9/28/73	$500,000	-	Public facility loan for interim water and sewer.

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In addition to the 27 grants, contracts, and agreements; 1 loan; and 1 loan guarantee awarded to the 6 organizations at Soul City, 11 other contracts, agreements, and grants had been awarded as of March 31, 1975, that fully or partially benefited the Soul City project. The contracts, agreements, and grants were awarded to the State of North Carolina, the city of Henderson, Warren County, and Eden Advertising and Communication, Inc. Information on these 11 contracts. agreements, and grants follows.

Government agency	Date	Administered by	Awarded	Purpose
HUD, Community Planning and Development	9/28/70 12/31/70	North Carolina Department of Administration	$ 132,996	Agreement for planning Soul City and regional planning.
HUD, Community Planning and Development	3/27/72	North Carolina Department of Administration	78,726	Agreement for comprehensive planning of Soul City and five surrounding counties.
HUD, Community Planning and Development	10/ 2/73	City of Henderson	3,522,950	Basic water grant for regional water system.
HUD, NCA	10/ 2/73	City of Henderson	500,000	Grant for regional water system.
HUD, NCA	6/29/73	North Carolina Department of Transportation and Highway Safety	65,000	Grant for road construction.
Department of Commerce, Economic Development Administration	6/--/73	City of Henderson	2,140,000	Grant for regional water system.
Department of Transportation, Federal Highway Administration (FHWA)	6/11/73	North Carolina Department of Transportation and Highway Safety	[a]31,500	Grant for road construction.

Government agency	Date	Administered by	Awarded	Purpose
FHWA	6/11/73	North Carolina Department of Transportation and Highway Safety	236,785	Grant for road construction.
FHWA	6/11/73	North Carolina Department of Transportation and Highway Safety	67,268	Grant for road construction.
Environmental Protection Agency	3/ 4/75	Warren County	[b]15,000	Grant for need assessment of waste water collection and treatment requirements for Soul City, Warrenton, and Norlina.
OMBE	12/20/74	Eden Advertising and Communications, Inc.	121,661	Contract for publicity of Soul City.
Total			$6,911,886	

[a]On April 30, 1975, this project was withdrawn and the grant was terminated.

[b]On July 18, 1975, the State of North Carolina and Warren County each contributed $2,500 to the project.

As shown by the following table, State and local funds have also been awarded that will benefit the development of Soul City.

Government agency	Date	Administered by	Awarded	Purpose
State of North Carolina	9/28/70 12/31/70	WRPC	$ 37,535	Agreement for planning Soul City.
State of North Carolina	9/28/70 12/31/70	State of North Carolina	56,890	Agreement for planning Soul City and the surrounding region.
State of North Carolina	3/10/72	WRPC	32,000	Agreement for comprehensive planning of Soul City and five surrounding counties.
State of North Carolina	3/10/72	State of North Carolina	22,076	Agreement for comprehensive planning of Soul City and five surrounding counties.
State of North Carolina	6/ 1/72	State of North Carolina	4,080	Grant for road construction.
State of North Carolina	6/ 8/73	State of North Carolina	74,000	Grant for road construction.
State of North Carolina	6/11/73	State of North Carolina	13,500	Grant for road construction.
State of North Carolina	6/11/73	State of North Carolina	66,986	Grant for road construction.
State of North Carolina	6/11/73	State of North Carolina	25,278	Grant for road construction.
State of North Carolina	7/ 1/73	Soul City Foundation, Inc.	5,000	Grant to plan continuous arts workshop program.

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Government agency	Date	Administered by	Awarded	Purpose
State of North Carolina	10/ 2/73	City of Henderson	2,795,000	Grant for regional water system.
City of Henderson	10/ 2/73	City of Henderson	2,535,021	Grant for Henderson's share of regional water system.
City of Oxford	10/ 2/73	City of Henderson	986,191	Grant for Oxford's share of regional water system.
Soul City Sanitary District	11/20/74	City of Henderson	103,120	Grant for Soul City's share of regional water system.
Total			**$6,756,677**	

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ALLEGATIONS RELATING TO THE SOUL CITY PROJECT

In accordance with agreements reached with your office, we examined various allegations relating to preferential treatment in providing Federal assistance, to interlocking directorships and nepotism, and to the lack of progress and poor management practices.

PREFERENTIAL TREATMENT IN PROVIDING FEDERAL ASSISTANCE

We wanted to learn whether the Federal agencies had followed their normal procedures in awarding and monitoring the grants, contracts, loan, and loan guarantee to Soul City organizations, and if not, the reasons for any deviation. Except as noted below, the various agencies had followed their normal review, approval, and monitoring procedures.

--The Office of Minority Business Enterprise had not established contract review, approval, and monitoring procedures at the time it awarded a letter contract to WRPC.

--The Community Services Administration (CSA) approved and funded two grants before the grants had progressed through the normal review and approval process.

--HUD imposed certain restrictions on the Soul City developer which were not imposed on other new community developers, but other restrictions normally imposed on other developers were relaxed for the Soul City developer. As a result of the restrictions, the amount of debentures that the developer could issue was limited until certain conditions were met. However, the relaxed restrictions could allow the developer to have a higher-than-normal debt-to-equity ratio and to draw down a larger amount of the funds from the escrow account.

--HUD approved and awarded basic water grants and a public facility loan to the Soul City Sanitary District, Soul City Utilities Company, and Henderson after the Secretary of HUD announced the termination of the grant and loan programs.

--The agencies--OMBE, CSA, the Office of Education (OE) and NEA--relied heavily on self-evaluations by the grantees and contractors without verifying the data. Moreover, OMBE used this data as a basis for awarding a follow-on contract.

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The following summarizes the results of our review at the Federal agencies which awarded grants, contracts, a loan, and a loan guarantee to Soul City organizations.

Department of Commerce--Office of Minority Business Enterprise

OMBE awarded three contracts totaling $1,184,640 to WRPC from February 1972 to July 1975 for (1) planning, promoting, and developing an industrial program for Soul City, (2) assisting Floyd B. McKissick Enterprises in closing a $14 million federally guaranteed loan, and (3) increasing the number of minority businesses and strengthening existing minority businesses in Soul City and the surrounding six counties.

Review, approval, and monitoring procedures

Except for the letter contract for $190,000 awarded in February 1972, OMBE followed its normal review, approval, and monitoring procedures. OMBE headquarters officials told us that the Congress first appropriated program funds for OMBE in January 1972. At that time OMBE was considering 17 proposals, 1 of which was a WRPC proposal. The officials said that the Secretary of Commerce wanted to obligate the program funds before the end of the fiscal year.

OMBE relied primarily on periodic progress reports the contractor submitted and OMBE's evaluation reports for monitoring the contractor's performance. These monitoring tools also were the basis for OMBE's decision to refund moneys to the contractor. Between October 1973, when they assumed monitoring responsibilities, and May 31, 1975, OMBE regional employees had made only one onsite review at WRPC. The review consisted of completing a pro forma checklist on such matters as (1) financial management, (2) personnel management, (3) administrative matters, and (4) program performance. The program performance section of the checklist dealt primarily with the contractor's ratio of output to funding, whether the contractor had a time-phased plan for meeting the contract objectives, and whether the contractor had carried out the required work. The reviewer's response was that the ratio of output to funding exceeded the minimum ratio, the contractor had submitted a time-phased plan, and the contractor was carrying out the required work.

Information in the onsite evaluation and progress reports the contractor submitted was the basis the regional office used for recommending the approval of a 2-year contract for $320,000 for WRPC to continue its work. The

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regional office's final evaluation of WRPC's performance during the contract period January 1974 through March 1975 stated that the contractor had greatly exceeded its projected goals, according to WRPC's records. OMBE did not verify the information WRPC submitted, and in actuality, WRPC did not exceed the projected procurement goals, as shown below.

Category	Actual Number	Actual Amount	Projected goals Number	Projected goals Amount
Loans approved (note a)	10	$13,800,000	11	$3,800,000
Procurements secured (note b)	2	135,000	5	1,800,000
Clients assisted	180	-	27	-

[a]Loans which WRPC arranged for clients.

[b]Contracts which WPRC helped clients obtain.

Most of WRPC's accomplishments were centered around Soul City activities rather than activities in the six-county area described in its contract. For example, from May 1973 through March 1975 WRPC reportedly helped clients obtain financing totaling about $31.7 million, of which $19.6 million, or about 60 percent, was directly related to Soul City activities. Before approving the recommendation for refunding, the Regional Director suggested that the region send a letter to WRPC expressing the region's concern about the limited activity outside the Soul City area and that continued support of the project depended on WRPC's services and activities in the six-county area. According to an OMBE project specialist, the region did not send the letter but did discuss the matter with WRPC officials.

In commenting on the region's recommendations for refunding, the Director, OMBE, said that:

--The information in the evaluation report showed that WRPC had fallen far short of achieving procurement goals.

--WRPC's major accomplishments included loaning over $1.2 million to corporations owned by Floyd McKissick. This raised questions concerning the possible inbred nature of WRPC's activities.

Nevertheless, the Director signed the refunding request.

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Audits of OMBE contracts with WRPC

The Department of Commerce, Office of Audits, made four audits and a certified public accountant (CPA) made three audits of the three contracts. One of the CPA's audits pertained to certification of the financial statements. The other six audits questioned costs because (1) adequate support for expenditures was lacking, (2) expenditures had not been made in accordance with contract terms and provisions, (3) costs had been incurred before the contract award, and (4) expenditures had not been made in accordance with OMBE cost principles. We confirmed the lack of support for many of WRPC's payments. (See p. 81.) The following table shows the costs questioned during the audits and the status of those costs at May 31, 1975.

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Audits of Contracts Awarded to WRPC

Audit by	Date	Contract-proposal	Costs reviewed	Costs questioned	Questioned costs unresolved at May 31, 1975
Department of Commerce	5/16/72	Proposal for 2-35590	$190,000	$15,042	-
Department of Commerce	8/31/73	2-35590	194,418	[a]65,266	$65,266
N. T. Garrett, CPA	9/17/74	2-35590	495,821	-	-
N. T. Garrett, CPA	9/17/74	2-35590	(b)	(b)	-
N. T. Garrett, CPA	1/30/75	2-35590	65,266	[c]34,998	-
Department of Commerce	1/29/74	Proposal for 4-36550	356,910	27,070	-
Department of Commerce	3/20/75	Proposal for 5-36579	318,278	38,668	-

[a]Interim cost audit.

[b]Audit pertained to certification of financial statements.

[c]Followup audit to resolve costs questioned by Department of Commerce during its audit of August 31, 1973.

The Regional Manager, Office of Audits, told us that, when the CPA made the final audit on contract 2-35590 in September 1974, he did not have a copy of the August 1973 audit by the Office of Audits. Because of the amount of costs the Office of Audits questioned and because the CPA's audit of the same contract had not questioned any costs, the CPA was asked to make a followup audit. In January 1975 the CPA made the followup audit and, in his opinion, resolved $30,268 of the $65,266 of costs questioned. The Regional Manager said that a final determination on the $65,266 of questioned costs would be made when the Office of Audits made its final audit on contract 4-36550 after the completion of our review.

The Regional Manager also said that the Office of Audits knew about $34,000 additional costs that had been charged to contract 2-35590 after the end of the contract period on December 31, 1973. According to the Regional Manager, those costs were not allowable and would be questioned during the final audit.

Office of Economic Opportunity--
Community Services Administration

CSA was established in January 1975 and assumed responsibility for community action, economic development, and other programs formerly administered by OEO. Therefore, in our discussion of grants CSA and OEO awarded, we have treated the activities pertaining to these grants as though they had been carried out by one agency, i.e., CSA, the successor agency to OEO.

CSA awarded six grants totaling $1,998.266 to Soul City Foundation and HealthCo between July 1, 1971, to July 1, 1975, as shown below:

Grant number	Grant period	Amount	Purpose
40475/CG4815	7/ 1/71 to 6/30/72	$ 98,934	Comprehensive health services.
40168-E-72 (note a)	7/ 1/72 to 12/31/73	1,097,457	Comprehensive health services.
40475-G-73-01	2/14/73 to 2/13/74	90,000	Social planning.
40475-F-73-01	5/ 1/73 to 4/30/74	502,875	Economic development demonstration project.
40475-F-74-01 (note b)	5/ 1/74 to 9/30/74	66,000	Amendment to grant 40475-F-73-01.
40644-03 (note c)	7/ 1/74 to 6/30/75	93,000	Community development social planning project.
40644-08 (note c)	7/ 1/75	50,000	Closeout.
Total		$1,998,266	

[a]Grant administration transferred to the Public Health Service (PHS), HEW, in July 1973.

[b]Not considered as a separate grant.

[c]Grants awarded by CSA regional office. All other grants were awarded by CSA headquarters.

The grants were awarded for:

--Planning for and carrying out a health-care delivery system for the poor people of Warren and Vance Counties.

--Developing a process for mobilizing Federal and private resources for social planning so as to stem the migration of poor, rural people to larger cities.

--Constructing an industrial facility (Soultech I) and developing plans for future projects.

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Review, approval, and monitoring procedures

Of the six grants CSA awarded, two--40475-F-73-01 and 40644-03--were not processed according to normal review and approval procedures and one grant--40644-08--was processed according to normal procedures. We were not able to determine whether the three other grants--40475/CG 4815, 40475-G-73-01, and 40168-E-72--had been reviewed and approved according to normal procedures because the employees responsible for reviewing and approving the grants were no longer employed by CSA and not enough documentation was available for us to trace the procedures followed.

CSA's normal review and approval procedures provided for determining whether:

--The grant proposal conforms with CSA guidelines, purposes, and goals.

--The prospective grantee is capable of carrying out the program activities.

--The grant objectives are compatible with socioeconomic trends of the area and whether the prospective grantee has the support of the local community.

--The grant activities are compatible with the activities of the local community action agency.

According to a CSA headquarters official, economic development grant 40475-F-73-01 for $502,875 was not reviewed and approved according to normal procedures. He said that the former CSA director had directed that the proposal be approved and funded even though the proposal had not progressed through the review and approval process. As a result the review process was limited to determining whether the necessary documentation was in order and whether the proposed activities were of the nature that could be funded under the OEO act.

CSA regional office officials told us that grant 40644-03 had not been reviewed and approved according to normal procedures. The Soul City Foundation submitted the proposal to CSA headquarters which, in turn, referred it to the Atlanta regional office for review and recommendation. However, before the regional office completed its review process, CSA headquarters told the region that its allotment was being increased by $93,000 to fund the proposal.

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CSA regional officials told us that the review process consisted only of determining whether the proposed activities were of the type that could be funded with regional program funds. The regional office agreed to fund the proposal, even though the proposed activities were in the nature of research and demonstration and were not normally funded at the regional level, because:

--CSA thought that the grant would complete the research and demonstration work and that a viable operating program would emerge.

--The emphasis in CSA at that time was to award grants at the regional level rather than at the headquarters level.

--The community action agency in the Soul City area was of the opinion that the proposed activities would complement its activities. It therefore agreed to act as the grantee and to enter into a delegate agency agreement with the Soul City Foundation for carrying out the grant activities.

CSA's monitoring of a grantee's performance consists primarily of reviewing periodic progress reports the grantee submits and visiting the site. The progress reports generally discuss the grantee's achievements and plans for meeting grant objectives. CSA officials gave us two site-visit reports related to the economic development demonstration grant. These reports discussed (1) background information on the Soul City project, (2) attendance at a Soul City Foundation board meeting, (3) extension of the grant because of a slow startup, and (4) progress being made on Soultech I.

Regional officials said that the Franklin-Vance-Warren Community Action Agency was responsible for monitoring the performance of the grant awarded by the region and that the only monitoring of the Soul City Foundation by CSA would be through its monitoring of the community action agency's performance.

Regional employees have made two site visits to the community action agency to discuss matters related to the Soul City Foundation. They discussed the release of grant funds, advance approval of expenditures for consultants and other contractual services, advance approval for filling certain positions, and maintenance of grant funds in a separate bank account. Regional employees also met with the staff of Soul City Foundation to see if they had any questions or problems.

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Audits of grants

CPAs made five audits of CSA headquarters grants to the Soul City Foundation. Four of the audits related to surveys of the accounting system and certification of the financial statements. Costs totaling $7,065 were questioned on the fifth audit on the basis of expenditures in excess of budgeted line items made without CSA's approval. At July 1, 1975, the questioned costs had been resolved.

No audits have been made of the grant awarded by the region. An audit is required within 6 months after the end of the program period--January 1, 1976--and the grantee has allocated $15,000 for accounting and auditing services.

Department of Health, Education, and Welfare--Office of Education

OE awarded a grant of $98,220 to the Soul City Foundation for the period July 1, 1973, to June 30, 1974. The grant was for a program to (1) compensate for past educational and cultural disadvantages of minority and poor white youths and (2) help create in the schools an atmosphere in which it would be easier for students to achieve and teachers to teach. The program design consisted of:

--A systematic remedial instruction program in three academic areas: (1) basic studies in reading, writing, and verbal communications, (2) mathematics, and (3) economics for 100 low achievers to be selected from junior high schools in Warren County.

--A broad program for cultural and intellectual enrichment activities for students in the academic program and for high school students.

In May 1974 the grantee requested and in June 1974 it received a grant extension through August 31, 1974, to operate the program through the summer. The main differences between the initial and the revised program were: (1) a reduction in the number of participants, (2) implementation of a summer feeding program, and (3) implementation of summer recreation program.

Review, approval, and monitoring procedures

OE followed its normal procedures for reviewing and approving the grant proposal the Soul City Foundation submitted and for monitoring the grantee performance during the grant period.

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OE monitors the grantee's performance by reviewing periodic progress reports, fiscal reports, and minutes of advisory committee meetings the grantee submits and by having OE employees make onsite reviews.

During the grant period, OE program officers made four onsite reviews. These reviews consisted primarily of completing a pro forma review sheet through interviews with the grantee's staff. However, the OE program officer did note certain problems which could affect the success of the program: school officials were reluctant to allow the grantee to carry out activities in the schools and parents were generally negative toward the program. The program officer said that program emphasis seemed to be on "what can the project do for Soul City rather than what can Soul City do for the success of the project."

The OE program officer assessed the grantee's performance as average, considering the opposition expressed by school district officials and the lack of parent participation in program activities.

The final evaluation report, which the grantee prepared and which incorporated the results of an evaluation by a consultant, noted that certain program activities had not been carried out, other program activities had been altered, and program emphasis had shifted from academic instruction to cultural enrichment activities. Further, as a result of these changes, program implementation was delayed from July 1, to October 1, 1973.

Audits of grant

OE rules and regulations governing the grant award require that the grantee audit all grant expenditures usually on an annual basis but no less frequently than every 2 years. As of November 1975 the grant had not been audited even though grant funds were budgeted for auditing and accounting services and over 2 years had passed since the grant award. The grantee's final expenditure report showed that all grant funds had been spent.

Department of Health, Education, and Welfare--Public Health Service

In July 1973 PHS assumed responsibility for administering a grant OEO awarded under the comprehensive health services program. The grant of $1,097,457 was awarded to HealthCo for the program period July 1, 1972, to December 31 1973. Under the grant, HealthCo proposed the following program objectives.

--Form a medical group or partnership and develop an adequate ambulatory health-care facility.

--Initiate delivery of health-care services to an enrolled-patient population.

--Initiate and negotiate a contract with the State of North Carolina under its title XIX program (Medicaid) to prepay, on a capitation basis, for services provided to Medicaid eligibles.

--Carry out an appropriate health information and cost-accounting system that would generate nationally comparable data on service utilization and per unit cost of service.

--Develop a procedure to evaluate the effectiveness and to assess the cost benefit of using family-nurse practitioners within a health-care program.

The grant also provided for constructing a permanent health-care facility estimated to cost $500,000 and to contain about 16,000 square feet of space. Grant funds of $250,000 were earmarked for constructing the facility; the remaining $250,000 was to be raised by the grantee.

Since assuming responsibility for administering the grant, PHS has awarded two additional grants totaling $769,389 to HealthCo for the period January 1974 through December 1975.

As of May 31, 1975, HealthCo had not drawn down any funds from the two grants PHS awarded. The grantee was still spending the first grant OEO awarded.

Review, approval, and monitoring procedures

PHS followed its normal grant review and approval procedures in awarding the grants to HealthCo. However, PHS employees who reviewed the grant proposals expressed concern about (1) the lack of clearly defined program objectives in the OEO grants, (2) the lack of action on the part of HealthCo to provide health services to the people of Warren and Vance Counties, and (3) the influence Mr. McKissick exerted on HealthCo's operations. The PHS reviewer's concern is illustrated by his comments that:

--It appeared that the level of funding for the project did not coincide in any way with what had been or should have been the goals and objectives

of the program which were ambiguous and for the most part nonexistent.

--It was high time that HealthCo seriously considered divorcing itself from the Soul City Foundation and McKissick Enterprises and got on with the business at hand. If that could not be done physically, then it should be done programmatically.

--The financial base, number of patients treated, and those projected did not indicate sufficient need nor warrant an expenditure for a permanent facility at that stage of the program.

PHS decided to fund the grant proposal because it believed the grantee would overcome certain startup problems and would achieve the objectives of the first grant.

PHS monitors grantee performance by reviewing periodic progress reports the grantee submits, by having PHS program officials make site visits, and by correspondence with the grantee.

During the period August 1973 to May 1975, PHS made 13 site visits to HealthCo to (1) discuss and review program operations and fiscal matters, (2) discuss HEW audit findings, (3) attend board of directors meetings, (4) discuss grant terms and conditions, and (5) discuss and review the grantee's proposal for refunding. Additionally, the grant files contained numerous pieces of correspondence and memorandums of telephone calls between PHS and HealthCo concerning many of the same issues covered during the onsite visits.

PHS officials assessed HealthCo's performance under the grants as poor, considering the amount of money spent--about $760,000 as of December 31, 1974--and the length of time the organization has been in existence--about 30 months. The official attributed HealthCo's poor performance to:

--The lack of clearly defined program goals and objectives.

--Ineffective management.

The chief of the PHS Operations Branch said that a grantee is expected to begin providing health-care services within 18 months after initial funding. HealthCo did not begin such services until about 25 months after initial funding.

The Regional Health Administrator told us that one problem had been the grantee's attitude. He said that, as with many of the grants transferred from OEO to PHS, the emphasis seemed to be on employing people rather than on achievements. He said that another problem was that, because the program goals and objectives were stated in broad, general terms, the grantee could do about anything and, technically, meet the terms and conditions of the grant.

The regional administrator also said that the lack of continuity of employees in key positions and Mr. McKissick's influence on HealthCo's operations adversely affected management's capability to perform effectively. Since July 1, 1972, there have been numerous personnel changes in such key positions as the executive director, clinic director, and staff dentist. Regarding Mr. McKissick's influence on HealthCo's operations, the Chief, Operations Branch, told us that Mr. McKissick's efforts seemed to be directed toward insuring the success of Soul City rather than seeing to it that HealthCo became a workable activity. As an example of this interference, he referred to a letter dated July 21, 1974, from Mr. McKissick to the then executive director in which Mr. McKissick expressed his concerns over the executive director's failure to:

--Use the services of an insurance company which committed $750,000 to the Soul City Foundation for building Soultech I and which had a representative on the board of directors of Floyd B. McKissick Enterprises, Inc. Additionally, the insurance company had an interlocking board with a bank which was a financial backer of Soul City.

--Purchase vehicles from dealers that were friendly to Soul City.

--Employ, as promised, the wife of the general manager of The Soul City Company.

We noted that in August 1974 the HealthCo staff expressed concern to PHS about the ability of HealthCo to fulfill its responsibility of providing health-care services to residents of Warren and Vance Counties because of how the program was being operated and the self-serving interest of certain individuals. According to the staff, these issues threatened the program in several ways: (1) there were clearly identifiable areas of conflicting interests in the two-county area and the staff was demoralized over the

situation and (2) the above matters had become public knowledge and the residents of the area were alarmed. As a result the staff feared that utilization of HealthCo's clinic would suffer.

In August 1974, when it opened, the HealthCo clinic treated an average of seven patients a day. This same workload level prevailed through December 1974. By May 1975 the clinic was treating 31 patients a day, and the workload remained at that level through August 1975. In August 1975, with such a patient load, the patient-visit cost was about $44, after deducting fees collected from patients and third-party payments. This cost resulted from the clinic's staffing level, which consisted of 2 full-time physicians, 1 full-time dentist, 2 family-nurse practioners, and 18 other employees on support and administrative jobs.

Audits of grants

A CPA firm made two audits of the grants OEO and PHS awarded. The two audits covered the grant periods of July 1, 1972, to December 31, 1973, and January to December 31, 1974, respectively. In addition, late in 1974 HEW made a survey of the budget, financial, procurement, property, and personnel systems the grantee used in administering the first grant. The costs questioned by the CPA firm and HEW related to (1) improper control over travel advances and expenses paid to employees, (2) salaries and wages in excess of budgeted amounts, and (3) penalty and interest payments to the Internal Revenue Service for late payment of taxes in 1973 and 1974. The following table shows the costs questioned during the audits and the status of these costs at July 1, 1975.

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Audits of Grants to HealthCo, Inc.

Audit by	Date of report	Grant	Costs reviewed	Costs questioned	Questioned costs unresolved at July 1, 1975
Wolf & Company, CPA	8/15/75	[a]40168-E-72	$339,968	$6,249	$ -
HEW	11/26/74	04-H-000817-01-0	(b)	1,685	-
Wolf & Company, CPA	2/21/75	04-H-000817-01-0	441,926	2,496	[c]992

[a]Awarded by OEO.

[b]Not shown.

[c]Travel expenses incurred for relocating medical director from Jamaica to Soul City. PHS disallowed the costs from Jamaica to Miami, Florida--the port of entry. The medical director appealed PHS's decision, and at July 1, 1975, the appeal was pending.

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The CPA firm and HEW said that the cash on hand was excess to then-current needs. The situation developed when HEW authorized the grantee to draw down all remaining grant funds under the initial grant. In December 1973 the grantee drew down $802,457, of which $44,968 was to cover obligations incurred under the grant and $757,489 was unobligated. The grant funds were deposited in non-interest-bearing accounts. The CPA firm, in its audit report dated August 15, 1974, recommended that the grantee use all the excess cash on hand before drawing down any grant funds from later grants. A HEW audit report dated November 26, 1974, recommended that the grantee refund all excess cash on hand. In February 1975 the grantee responded to the CPA's report and said that, for the most part, funds remaining from the drawdown had been deposited in interest-bearing accounts and that the interest earned on the accounts would be paid into the U.S. Treasury. A PHS official told us that the grantee deposited about $240,000 in interest-bearing accounts in January 1975--about 1 year after the grant funds were drawn down.

National Endowment for the Arts

NEA awarded two grants, totaling $22.120 to the Soul City Foundation between January 1973 and July 1974. Under these grants the foundation proposed to plan and develop a long-range cultural arts program for Soul City, including (1) preparing a general cultural arts program for Soul City with specific proposals and recommendations on which agencies and foundations could be approached for funds and (2) providing professional assistance and technical expertise to the existing cultural programs at Soul City, that is, the dance and drama groups. In addition, the long-range plan would consider the (1) types of programs which the new community and surrounding area could support, (2) type of publicity and educational program needed, (3) type of program needed for identifying and nurturing local talent, (4) potential resources to support planned programs, (5) development of a resident theatrical group and choir, (6) implementation of art workshops, (7) establishment of an annual art festival, and (8) plans for permanent facilities and their time schedules.

Review, approval, and monitoring procedures

NEA followed its normal procedures for reviewing and approving the grants awarded to the Soul City Foundation.

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NEA normal monitoring procedures consist primarily of reviewing financial and progress reports the grantee submits and making site visits to provide technical assistance to the grantee and to insure that grant funds are being spent for grant-related purposes. As of July 1975 NEA had not made any site visits to the Soul City Foundation.

NEA's evaluation of a grantee's performance is based on final financial and evaluative reports the grantee submits at the end of the grant period. NEA reviewed and approved the reports for the first grant and noted no problem areas. The reports for the second grant were not due until October 1975--90 days after the end of the grant period.

Audit of grants

NEA has not audited its grants to the Soul City Foundation. NEA officials told us that, because of its small audit staff, NEA did not attempt to audit every grant. They said that they selected for audit only those grants with large dollar amounts or those which had received adverse publicity. The official further said that, although the grantee had received some adverse publicity, none of it was related to the NEA grants, and NEA did not plan to audit the grants.

Department of Housing and Urban Development--new communities loan guarantee

In 1969 the Soul City developer applied to NCA to have it guarantee a loan for development of Soul City. In 1974 NCA executed a project agreement with the developer. The project agreement provided that the developer could issue up to $14 million of debentures which the Government would guarantee. As discussed later, the developer could issue only $5 million of debentures intially with later issues contingent upon the developer's accomplishing certain requirements specified in the project agreement.

Review, approval, and monitoring procedures

NCA followed its normal procedures in reviewing and approving the developer's applications for guarantee assistance and in monitoring the project. However, because Soul City differed from other new communities, NCA imposed certain restrictive conditions on the developer which it had not imposed on other developers. Conversely, NCA relaxed other conditions which it had imposed on other developers.

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Special restrictive conditions imposed on the Soul City developer

NCA realized, early in the application stage, that there was considerable risk inherent in developing Soul City because it was the first freestanding community and that there was no established industrial base in the vicinity from which it could attract growth. The Administration also recognized the inherent risks of the Soul City project, as evidenced by the following memorandum from the White House dated June 21, 1973, to the Under Secretary of HUD concerning the Soul City project.

"* * * the whole New Communities program is and was expected to be an experimental venture with inherent risks. We should not now argue that because one of these new communities is 'marginal', it should be scrubbed. Unless we go ahead with this, how are we ever going to find out whether a new town, beginning from scratch in an entirely rural area, can be made to succeed?

"If we now say 'no' to McKissick, we will stand accused not only of reneging on specific commitments to him, but of reneging on the President's commitment to the whole minority enterprise concept. However unfair or inaccurate those accusations may be in a narrow sense, in the broader context they will be persuasive to the public and damaging to all of us on the domestic side of the Administration.

"We should give Soul City the green light and inform the interested agencies that we have done so * * *."

As a result of the recognized risks, NCA imposed certain special restrictive conditions on the developer. For example, the loan guarantee for Soul City was established at $14 million, but the developer was authorized to issue only $5 million of debentures initially. Before additional debentures could be issued, the developer was required to submit evidence that (1) there actually was primary employment at Soul City of 300 jobs, (2) enough funds were available to construct certain waterlines, sewerlines, and storm-drainage lines, (3) certain roads and streets had been completed, and (4) contracts had been signed for purchasing a specific number of acres of industrial, residential, commercial, and institutional land at specific prices.

NCA officials were of the opinion that the development of a job base through industrial development would be necessary for Soul City to succeed. For this reason NCA decided to restrict the developer's efforts during the first 3 years to industrial-related development. The developer expressed the opinion that it would be difficult to attract industry if residential and commercial development were not taking place concurrently with industrial development. However, NCA believed that the developer could not afford to diversify its efforts for this type of concurrent development. That restriction, along with the condition that land not be developed for residential and commercial purposes until the land was sold, was incorporated in the project agreement.

Relaxation of normal conditions for Soul City developer

We noted that NCA did not impose on the developer of Soul City two requirements which normally are imposed on other developers. As a result, the equity contribution by the developer may be less than is normally required when additional debentures are issued and the developer could withdraw funds from its escrow account in excess of the amount normally allowed to other developers.

NCA's policy is that the developer's debt-to-equity ratio should be 4:1 or better for new community development entities, in order to protect the Government's financial interests and to insure that developers have a considerable financial stake in the success of the venture.

Soul City issued an initial series of debentures for $5 million and was required to contribute $1.5 million in equity. Thus the normal debt-to-equity ratio was met. However, the project agreement does not stipulate whether additional equity would be required from the developer should the additional $9 million of debentures be issued. Therefore, unless additional equity was required, the debt-to-equity ratio could increase to 9:1. NCA officials told us that, for other new communities where debentures were issued in series, the project agreement required the developer to contribute additional equity so as to retain the normal debt-to-equity ratio. The officials said that, since the project agreement with Soul City was silent on the matter, NCA could, and probably would, require additional equity from the developer when additional debentures were issued.

HUD requires that the security requirement for a loan guarantee be at least 110 percent of the outstanding obligations at any one time. For Soul City, the security requirement was $5.5 million and the collateral used to meet the requirement consisted of investments, real property, land development costs, and cash proceeds from the sale of the guaranteed obligations.

If the value of the collateral account exceeds the security requirement, the developer can draw down the excess funds from the escrow account. The basis used in computing the amount of development costs included in Soul City's collateral account differed from that normally used for new communities. This resulted in a larger part of the development costs being included in the collateral account, which, in turn, allowed the developer to draw down a larger amount of the funds from the escrow account.

NCA's normal procedure provides that, if the developer owns all the project land, all land development costs be included in the collateral account. However, if the developer does not own all the project land, as is the case with Soul City, only the land development costs directly related to the land owned are included in the collateral account. In addition, an allocated part of the costs incurred for land development that are applicable to the total project, such as administrative costs, legal fees, and planning costs, are included in the collateral account on the basis of the ratio of land owned to total planned-project size. The Soul City developer owned about 2,100 acres, and the total planned-project size was established at about 5,300 acres. However, during the initial development period HUD limited the project size to about 3,000 acres until an onsite employment base of 300 jobs was obtained. Under HUD's normal procedures, land development costs applicable to the total planned project would have been allocated over the total planned-project size of 5,300 acres (development costs X $\frac{2,100}{5,300}$). For Soul City the development costs were allocated over the 3,000 acres (development costs X $\frac{2,100}{3,000}$).

As of March 6, 1974, the Soul City developer reported land development costs totaling $1,421,676 which were applicable to the total planned project of 5,300 acres. Under HUD's normal procedures, $553,935 would have been allocated to the collateral account. However, the procedures HUD used for allocating land development costs resulted in $971,000 being allocated to the collateral account. The following example shows the computation of funds available for drawdown from the escrow account in March 1974 using HUD's normal method and the method used for Soul City.

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	NCA normal procedure	Method used for Soul City
Project real property	$ 727,300	$ 727,300
Land development costs ($1,421,676)	553,935	971,000
Value of escrow account	5,000,000	5,000,000
Total value of collateral account	6,281,235	6,698,300
Less required security	5,500,000	5,500,000
Amount available for drawdown from escrow account	$ 781,235	$1,198,300

An NCA official told us that, because the developer was limited as to the amount of land that it could own during the initial development period, it would not have been equitable to allocate the development costs on the basis of the total planned-project size of 5,300 acres. The official said that normally the developer owns all or most of the project land and therefore the allocation formula does not work a hardship on it. However, the Soul City developer does not own most of the land. Consequently, if the normal allocation formula had been used, the ability of the developer to draw down funds from the escrow account would have been severely hampered.

Audits of loan guarantee

There have been three audits of the loan guarantee since the date of the project agreement. Two of the audits pertained to examination of financial statements by a CPA and the other was a management-type audit by HUD's Office of Inspector General. The CPA's audits disclosed no findings. The HUD management audit disclosed that there had been inadequate communication and coordination between the NCA staff and their counterparts in HUD's headquarters and area offices. In response to the audit report, the NCA staff agreed with the finding and promised to take corrective action. In May 1975 NCA established an organizational component, the Program Support and Field Liaison Division, to correct any lack of coordination and communication with other HUD offices.

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Department of Housing and Urban Development--grants and loans pertaining to sewer and interim water system

HUD awarded grants totaling $704,000 to the Soul City Sanitary District to aid in constructing an interim water system. Additionally, the Soul City Utilities Company applied for and received a public facilities loan from HUD of $500,000 for constructing a sewer system.

The sewer and interim water system, estimated to cost $1,954,000, will be funded through a combined effort of HUD and The Soul City Company, as shown below.

Funding source	Amount
HUD, basic grant	$ 500,000
HUD, public facilities loan	500,000
HUD, supplemental grant	204,000
The Soul City Company	750,000
Total	$1,954,000

As of July 1, 1975, the Soul City Sanitary District and the Soul City Utilities Company had not spent any grant or loan funds.

HUD basic grant and public facilities loan review, approval, and monitoring procedures

HUD awarded the basic grant and public facilities loan after the Secretary of HUD announced that grant and loan programs would be terminated on January 5, 1973.

The Secretary advised HUD regional and area offices that no water and sewer grants or public facility loans would be approved after January 5, 1973, unless (1) the project application had been rated under the community development project-rating system, (2) the application had been determined to be fundable in relation to other applications and to funds on hand, (3) funds had been reserved for the project, and (4) the project applicant had been notified of approval, in writing, on or before January 5, 1973.

Neither the grant nor the loan application met the above criteria.

--The Soul City Sanitary District submitted the grant application in June 1973. HUD reserved grant funds

for the project on June 29, 1973, and awarded the grant in September 1973.

--The Soul City Utilities Company submitted its application for a public facilities loan on June 20, 1973, and HUD earmarked funds for the loan on August 17, 1973. As of July 1, 1975, HUD had not approved the loan request.

HUD officials agreed with us that the applications for the water and sewer grants and the public facilities loan did not meet the above criteria. However, they believed that, because of the 1972 offer of commitment for the new community of Soul City--of which the water system was an integral part--HUD had a moral, if not a legal, obligation to fund the water and sewer project. HUD successfully appealed to the Office of Management and Budget for release of grant and loan funds for several new community projects, including Soul City.

Construction of the sewer and interim water system will be monitored primarily by the architect-engineer firm employed by the Soul City Sanitary District. HUD's monitoring will consist of periodic site visits and reviews of the progress reports submitted by the architect-engineer firm. As of July 1, 1975, no monitoring or evaluation had taken place.

No audits have been made of the HUD grant or public facilities loan; however, final audits are required upon project completion.

HUD supplemental grant review, approval, and monitoring procedures

NCA can award grants to State or local public bodies undertaking certain types of projects beneficial to the development of a new community. The grants, referred to as supplemental grants, supplement other Federal assistance for water and sewer systems, highways, and other facilities related to the development of new communities. NCA awarded a $204,000 supplemental grant to the Soul City Sanitary District for constructing the interim water and sewer system.

NCA followed its normal review and approval procedures in awarding the supplemental grant to the Soul City Sanitary District.

NCA does not monitor a grantee's performance under the supplemental grants because the agency awarding the basic water grant will do so.

NCA officials said that no audits had been made of the supplemental grant and that the agency awarding the basic grant was responsible for determining whether a final audit was required.

Grants awarded to Henderson, North Carolina

HUD and the Economic Development Administration (EDA) awarded grants totaling about $6.2 million to Henderson to aid in construction of a regional water system to serve Henderson, Oxford, and Soul City. The regional system was estimated in 1973 to cost $9 million. Since that time, costs have escalated to about $12.6 million. The following table shows the Federal, State, and local funding sources for the regional system at the initial and revised cost levels.

Sources of Funding for Regional Water System

Funding source	Initial cost level at June 1973	Revised cost level at January 1975
EDA	$1,500,000	$ 2,140,000
HUD:		
Basic grant	2,500,000	3,522,950
Supplemental grant	500,000	500,000
State of North Carolina	1,700,000	2,795,000
Henderson	2,000,000	2,535,021
Oxford	800,000	986,191
Soul City	-	103,120
Total	$9,000,000	$12,582,282

Department of Commerce--Economic Development Administration

In June 1973 EDA awarded Henderson a $1.5 million grant to aid in developing and constructing a regional water system. In December 1974 EDA increased its grant award by $640,000, for a total of $2,140,000, to help compensate for increased costs of constructing the regional system.

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Review, approval, and monitoring procedures

EDA followed its normal procedures for reviewing and approving Henderson's proposal and for monitoring its performance.

EDA's monitoring consists primarily of (1) site visits by regional office employees, (2) correspondence with the grantee, (3) review of construction progress reports, (4) request for progress payments, and (5) final project inspection. EDA officials told us that they relied on the architect-engineer firm, hired by the grantee, for day-to-day monitoring. The architect-engineer firm is the project supervisor and as such is responsible for insuring successful project completion.

EDA regional office employees made seven site visits--one before and six after the grant award--to the grantee to (1) help the applicant prepare the grant proposal, (2) attend a preconstruction conference, (3) discuss labor problems at the construction site, (4) inspect the project, and (5) discuss cost overruns.

EDA officials said that both they and the grantee were completely satisfied with the progress being made toward completing the regional water system. The officials said that construction was proceeding as scheduled--and in certain instances ahead of schedule--and that the system was expected to be in operation by August 1976.

The following table shows, at May 31, 1975, the percent of completion and the estimated completion date of the major components of the regional water system.

Component	Percent completed (note a)	Estimated completion date
Water treatment plant	35.3	5/75
Raw-water intake facility	57.1	3/76
Main transmission lines	88.7	7/75
Pipeline to Soul City	82.1	7/75
Elevated storage tank at Soul City	48.7	8/75

[a]Based on costs incurred. According to EDA officials, the percent of costs incurred approximates the percent of physical completion.

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The grant awarded to Henderson has not been audited. A final audit is required and must be reviewed and approved by the Department of Commerce's Office of Audits before EDA can make final payment to the grantee.

Department of Housing and Urban Development--basic water and sewer grant

In October 1973 HUD awarded Henderson a $2.5 million water and sewer grant to aid in developing and constructing the regional water system. Because of the escalating cost of the system, in October 1974 HUD increased its basic grant award by $1,022,950 for a total grant of $3,522,950.

Review, approval, and monitoring procedures

HUD followed its normal procedures for reviewing and approving the grant to Henderson. However, the grant was approved and awarded after the water and sewer grant program was terminated in January 1973.

In carrying out the Secretary's announcement, the HUD area office notified Henderson in February 1973 that, because its application had not been approved by January 5, 1973, it was being returned.

As discussed on page 56, HUD believed that it had a moral obligation to fund the water system even though the grant application did not meet the criteria spelled out by the Secretary in January 1973.

In May 1973 HUD's headquarters directed its regional office to give Henderson the necessary documents and advice to enable it to resubmit its application in time for HUD to respond before June 30, 1973.

On June 5, 1973, Henderson resubmitted to the HUD area office its application for a $3 million grant, and on June 29, 1973, HUD central office told the regional office that funds had been earmarked for the regional water system.

HUD relies primarily on the architect-engineer firm, hired by the grantee, to monitor the progress being made on the project. Periodically HUD employees make site visits to keep abreast of the progress being made.

According to HUD's project engineer, construction of the regional water system is proceeding on schedule and satisfactorily. He said that there had been a minimum of problems and changes in design, considering the size of the project.

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No audits have been made of the HUD grant; however, a final audit is required before final payment can be made to the grantee.

Department of Housing and Urban Development--supplemental grant

In June 1973 Henderson was awarded a HUD supplemental grant of $500,000 to aid in constructing a regional water system.

The review, approval, and monitoring procedures for this grant were the same as for the supplemental grant on the interim system. Also NCA is not required to evaluate the grantee's performance or to audit the grant. These two functions are the responsibility of the agency awarding the basic grant.

INTERLOCKING DIRECTORSHIPS AND NEPOTISM

A number of allegations dealt with interlocking directorships among organizations at Soul City and with nepotistic practices of hiring family members in management positions.

We found that the allegations relating to interlocking directorships and the hiring of family members by management officials were correct. However, we found nothing in the rules, regulations, or grant and contract provisions governing the awards made by Federal agencies, included in this report which prohibited interlocking directorships. Some grants prohibited the hiring of family members to work in the same department of an organization. None of the family members worked in the same department. Furthermore, the family members hired had the education and experience to qualify them for their jobs.

The allegations and our evaluations follow.

"Carey and Warrenton lawyer T. T. Clayton are McKissick's partners in the Soul City development. While directing the WRPC project to provide technical assistance to McKissick Enterprises, Carey farmed out the legal work (paid for by the Government) to T. T. Clayton's law firm."

This allegation is accurate. Messrs. Gordon Carey and T. T. Clayton are two of the partners in McKissick Soul City Associates, which is a limited partner in The Soul City Company. While Mr. Carey was the director of WRPC,

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WRPC paid the Clayton and Ballance law firm $12,700 in legal fees under WRPC's contract with OMBE for services for the Soul City project closing. WRPC also paid $117,200 in legal fees to other law firms. OMBE's chief counsel ruled that there was no violation of (1) the Federal conflict of interest law and (2) any past or present contract with WRPC. Federal statutes in title 18 of the United States Code--which governs criminal conflict of interest--apply only to Federal employees and former Federal employees and therefore do not apply to employees of grantees or contractors mentioned in this allegation. On the basis of our review, we are not aware of any Federal laws, regulations, or grant and contract provisions which prohibited the matter discussed in the above allegation.

"The corporate structure supported by the Federal aid is marked by nepotism * * *."

Management officials were responsible for hiring members of their family. However, Federal laws, regulations, and contract provisions governing the awards to the Soul City organizations did not prohibit such practices. Additionally, the family members holding management or professional positions at Soul City had the education and experience to qualify them for their jobs.

"* * * he [Floyd B. McKissick] served as chairman of the board of Warren Regional Planning Corp. (WRPC) while drawing a salary from WRPC to direct a government-funded project to promote an industrial program for his real estate development."

"Warren Regional Planning Corp. hired Gordon R. Carey, at $27,000 a year, to direct a contract to provide $274,000 in 'technical assistance' to McKissick Enterprises. Carey is a vice president and stockholder in McKissick Enterprises * * *."

The allegations are correct, except that Mr. Carey's entry salary at WRPC was $25,000 a year. In May 1975, long after the fact, the legal counsel for OMBE concluded that neither Mr. McKissick nor Mr. Carey violated conflict of interest laws in past or present OMBE contracts. For the reasons stated previously the Federal criminal statutes governing conflicts of interest do not apply to this situation. Based on our review, we are not aware of any Federal law, regulations, or grant and contract provisions which prohibit the matter discussed above.

"* * * A Government-funded health clinic * * * is to be developed by Madison and McKissick Development Co., Inc. * * * McKissick is a director of that for-profit development concern and he is also a director of HealthCo, Inc., which would operate the clinic."

In July 1973 OEO approved a lease-purchase agreement between HealthCo and Madison & McKissick Development Company, Inc. The lease-purchase agreement provided that:

--Grant funds of $250,000 would be paid to the developer and the developer would be responsible for financing the $250,000 balance of the construction costs.

--The developer would construct the facility and lease it to HealthCo for 20 years.

--The monthly lease payments to the developer would consist of interest, amortization of principal, and a 5-percent developer's fee until the $250,000 borrowed by the developer was repaid.

The OEO acting associate director for the Office of Health Affairs, in a letter to HealthCo, commented on the "apparent conflict of interest" between HealthCo and the developer.

"In granting this approval, full cognizance is taken of the apparent conflict of interest arising from the fact that Mr. Floyd B. McKissick, a member of the HealthCo Board of Directors, also has a substantial interest in the Madison & McKissick Development Company. In such a situation, this rental/purchase of space would normally be prohibited by OEO Instruction 6909-1. In this case, however, this specific transaction is approved as permitted by Parts IV and V of OEO Instruction 6909-1 due to the circumstances and for the reasons set forth below as a matter of record."

The reasons given for approving the lease-purchase agreement were:

--The cost of the project was comparable to that of other projects and did not result in any undue financial advantage accruing to the developer.

--The lease-purchase agreement in which a leading member of the black community is a principal was necessary to insure timely completion of the facility, the maximum focus of community interest and community participation in the project, maximum employment of minority workers and subcontractors, and maximum economic benefits to the inhabitants of the project target area.

--The terms of the lease-purchase agreement were reasonable and compared favorably with terms of lease-purchase agreements entered into for other projects in the past.

--The transaction was in accordance with all other OEO guidelines, standards, and procedures.

At the time of our review, construction of the clinic had not been started. PHS is now the grant administrator. PHS officials told us that the clinic had not been constructed because HealthCo had not submitted final construction plans for approval and the developer had not obtained its share ($250,000) of the funds. Also the officials said that approval for construction of the facility would not be granted until there was evidence that Soul City would become a reality. They said that relocating HealthCo away from the Soul City site was being considered because of HealthCo's low patient workload. A final decision will be made before the end of the current program year--December 31, 1975.

In August 1975, after we completed our audit, we were told that HealthCo submitted to PHS architectural drawings for a permanent clinic of about 7,000 square feet with an estimated construction cost of about $220,000 rather than the initially proposed clinic of 16,000 square feet with an estimated cost of $500,000. According to HealthCo's executive director, Madison and McKissick Development Company, Inc., will not be the developer. A new developer will be chosen after PHS approves the construction plans.

"McKissick Enterprises borrowed $386,000 from Chase Manhatten Bank in New York City and bought the Satterwhite farm on Feb. 19, 1969. Tax stamps affixed to the deed indicate a purchase price of $390,000.

"The farm, together with a few hundred additional acres, was sold by McKissick Enterprises to The Soul City Co. five years later for $650,000 according to tax stamps on the deed transferring the property.

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On March 6, 1974, Floyd B. McKissick Enterprises, Inc., sold three tracts totaling 2,087 acres for $600,556 to The Soul City Company. HUD appraised the land at $727,300 as of the same date.

The allegation relates to the $390,000 McKissick Enterprises paid for the first tract and does not include the $74,584 paid for two additional tracts.

McKissick Enterprises purchased the three tracts in 1969 and 1971 for $464,584. McKissick Enterprises' total net cost to buy and hold the property for several years was $598,320, as shown below.

Land purchase cost	$464,584
Interest on mortgage	121,507
Real estate taxes	5,281
Land improvement cost less depreciation	28,790
Less revenue earned on farming during holding period	- 21,842
Total	$598,320

On the basis of the above, McKissick Enterprises realized a profit of $2,236 on its sale of land to The Soul City Company.

> "* * *Warren Regional Planning Corp. got $274,000 in 1973 to provide 'technical assistance' to Floyd B. McKissick Enterprises, Inc. WRPC spent the money to prepare the legal, planning, and other documents McKissick Enterprises needed to close the $14 million HUD loan agreement.
>
> "McKissick is chairman of both the nonprofit WRPC and the for-profit McKissick Enterprises."

In June 1973 OMBE modified and expanded the contract with WRPC to provide technical assistance to McKissick Enterprises for the HUD closing. The modification added $274,000 to the contract. The funds were used to pay subcontractors for planning and engineering, accounting and financial services, insurance counseling, printing costs, and legal fees for closing.

OMBE's chief counsel ruled that no provision of the contract with WRPC had been violated. He concluded that there was an identity of interest among the participants

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but that there was no conflict of interest. We are not aware of any Federal law, rules, regulations, or contract provisions governing the award to WRPC which would prohibit the matter discussed above.

LACK OF PROGRESS AND POOR MANAGEMENT PRACTICES

Some of the allegations were directed to Soul City's overall lack of industry, shops, homes, and other physical developments despite its 6-year history and expenditure of over $5 million of Federal funds. Other allegations related to the lack of progress and poor management practices of three of the Soul City organizations.

Physical development

> "After six years * * *.
>
> "More than $5 million from federal grants, contracts and government-backed loans had been spent at Soul City.
>
> "There is no industry there, no shops, no houses--no Soul City.

This allegation is basically accurate but can be misleading without the complete story.

Although about $4.6 million of Federal and federally guaranteed funds had been spent by Soul City organizations through March 1975, physical development was essentially on target considering that the loan guarantee for the prime developer, The Soul City Company, was consummated only 1 year earlier on March 6, 1974.

The Soul City Company	[a]$1,921,721
Soul City Foundation, Inc.	[b]939,216
WRPC	[c]962,136
HealthCo, Inc.	[b]842,051
Total	$4,665,124

[a]Federally guaranteed loan.

[b]Federal grants.

[c]Federal agreements and contracts.

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Except for the $568,875 the Soul City Foundation spent to construct the recently completed industrial building, Soultech I, the Federal and federally guaranteed loan funds were not spent to construct industrial buildings, shops, or houses. The Soul City Foundation, WRPC, and HealthCo spent the funds for establishing a health-care program for a two-country area, a learning laboratory, and a cultural arts program; assisting minority businesses in a six-county area; and planning programs for the Soul City project.

The $1,921,721 of federally guaranteed funds The Soul City Company spent were primarily for land purchases and development activities. The project agreement with HUD prohibits The Soul City Company from using guaranteed funds to build residential, commercial, and industrial structures. The Soul City Company is responsible for planning the Soul City project; constructing streets; providing such necessities as water, sewage disposal, and electricity; and selling land to other developers. (For further details on the project status see p. 6.)

HealthCo

HealthCo was faulted for (1) having spent an inordinately large amount before opening its doors to the public and (2) not having treated an acceptable number of patients since starting operations. We found the allegations to be essentially correct, but time has altered some of the conditions.

> "HealthCo. spent $339,968 in 1972-73 on a regional health clinic for Vance and Warren counties. Most of the money went for salaries. Not one patient was treated during that period.
>
> "The clinic eventually opened on Aug. 5, 1974, 11 months behind schedule * * *.
>
> "In its first month of operation, the clinic treated 155 patients and collected $688 in income. HealthCo had cost the Government a total of $646,968 by that time."

HealthCo received an 18-month grant from OEO effective July 1, 1972. This grant provided for a 14-month planning and preparation period and a 4-month operational period. Responsibility for administering the grant was transferred to PHS on July 6, 1973. PHS awarded HealthCo an additional 12-month grant upon expiration of the original 18-month grant.

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As of December 31, 1973, HealthCo incurred expenses totaling $339,968. The total costs increased to $555,800 at July 31, 1974, primarily due to purchasing equipment, supplies, and other items necessary to open and operate the clinic.

HealthCo was scheduled to provide health services beginning September 1973 under the original grant. Services did not begin until August 5, 1974, some 11 months late, because PHS officials would not approve a temporary or permanent clinic until after the HUD bond closing. The bond closing took place in March 1974, and PHS then authorized HealthCo to set up a temporary clinic.

From August 1974 through August 1975, HealthCo treated 4,743 patients. Expenditures--after deducting patient fees and third-party payments--totaled about $414,000. As shown below, the average patient load increased steadily from the date the clinic opened in August 1974 until May 1975. Since then the patient load has remained fairly constant.

	Patients treated	Average number of patients treated daily
August 1974	151	7
September 1974	146	7
October 1974	175	8
November 1974	162	8
December 1974	163	7
January 1975	289	13
February 1975	278	14
March 1975	338	17
April 1975	462	21
May 1975	659	31
June 1975	634	32
July 1975	644	29
August 1975	642	31
Total	4,743	

As shown above, in August 1974, when it opened, the HealthCo clinic treated an average of seven patients a day. This same workload level prevailed through December 1974. From August through December 1974, the average patient-visit cost was $258. By May 1975 the clinic was treating 31 patients a day, and the workload remained at that level through August 1975.

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In August 1975, with such a patient load, the patient-visit cost was $44, after deducting fees collected from patients and third-party payments. The clinic's staff consisted of 2 full-time physicians, 1 full-time dentist, 2 family-nurse practioners, and 18 other support and administrative employees.

Warren Regional Planning Corporation

WRPC was faulted for

--Failing to recruit industry for Soul City.

--Making improper loans to Floyd B. McKissick Enterprises, Inc.

--Paying for a life insurance policy on Mr. McKissick after he was no longer WRPC's director.

--Receiving $274,000 for legal and other services to support the profit seeking organization, Floyd B. McKissick Enterprises, in its quest for Federal backing for its bond sale. These expenditures may have been included in The Soul City Company's predevelopment costs.

In our opinion, WRPC should not be blamed for not having recruited industry to Soul City inasmuch as it was never WRPC's purpose to recruit industry. The other allegations made are essentially correct.

> "Warren Regional Planning Corporation (WRPC) was given $257,000 in 1972-73 to plan an industrial program for McKissick's development and to persuade industries to locate there. That agency did a lot of planning, but recruited no industry * * *."

This allegation is only partially correct. WRPC was given an OMBE contract in 1972 to plan an industrial program for Soul City. The contract did not provide for recruiting industry for Soul City.

The contract required WRPC to (1) make studies of the industrial development feasibility of the area, (2) determine the number, size, and type of plants Soul City should ultimately have, (3) design a physical plan for industrial sites, and (4) make various feasibility studies to determine the organizations to promote and develop the industrial base and the methods of financing the projects.

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We verified that WRPC had done work on the tasks enumerated in the contract. In making the various studies referred to above, WRPC contacted many corporations. The contacts were made to determine what presentation should be used when actual recruiting began. During the contacts, WRPC did try, unsuccessfully, to recruit those corporations which expressed interest in Soul City as an industrial site.

> "Without OMBE's knowledge, Warren Regional Planning Corp. loaned money, obtained from an OMBE contract, to McKissick Enterprises. Those loans, which have been repaid, totaled $27,486."

The allegation is correct. The loans were made to enable Floyd B. McKissick Enterprises, Inc., to continue its efforts to perform the activities necessary for it to close the HUD bond guarantee. All loans were repaid in March 1974, immediately after the HUD closing. At the time of the loans, Mr. McKissick was chairman of the board of WRPC.

Although WRPC's contract required WRPC to provide technical assistance to Floyd B. McKissick Enterprises, Inc., it did not permit it to loan money to Floyd B. McKissick Enterprises or to any other minority business. Because it failed to request OMBE approval before making such loans, WRPC exceeded its authority under the OMBE contract by making such loans.

> "Warren Regional Planning Corp. used OMBE funds to pay more the $2,000 in premiums on a $200,000 insurance policy on McKissick's life. McKissick's wife was the primary beneficiary."

In March 1972 WRPC took out an insurance policy on the life of Mr. McKissick, the director of WRPC. The insurance policy was considered a fringe benefit to Mr. McKissick. In the event of Mr. McKissick's death, WRPC would have received an amount equal to the paid-in premiums and Mrs. McKissick would have received the balance.

The Department of Commerce audit report dated August 31, 1973, questioned $2,088 of the $3,016 paid-in premiums.

> "* * * After July 1, 1972, Mr. McKissick was not contractually authorized to perform under the OMBE contract. Accordingly, the premiums related to this period are considered to be unallowable costs."

After the Department of Commerce audit, WRPC paid $1,392 additional in premiums. However, WRPC discontinued paying premiums on this policy after September 1973.

Since Mr. McKissick was no longer contractually authorized to perform under the OMBE contract after July 1, 1972, the premiums of $3,480 paid after that date were not allowable costs under the terms of the contract. The Atlanta Regional Manager, Office of Audits, Department of Commerce, said a final determination would be made on the questioned costs when the final audit on the contract is made.

> "The U. S. Department of Housing and Urban Development (HUD) permitted Soul City's developer to draw funds last year from HUD guaranteed loans to pay more than $1 million in predevelopment costs. The department did so without determining if a part of these costs already had been paid by another federal agency.
>
> "The Office of Minority Business Enterprises (OMBE), a U. S. Department of Commerce agency, gave the Warren County, N. C., new town project a $274,000 contract on June 25, 1973. The money was to cover fees for attorneys, architects, engineers and other predevelopment expenses."

On March 6, 1974, HUD approved the Soul City's cost certification of predevelopment costs amounting to $1,421,676. On the basis of the approved cost certification, The Soul City Company was permitted to draw down $685,428 from its escrow account.

We made some tests to determine whether the predevelopment costs certified to HUD (1) had been paid by another Federal agency and (2) had actually been incurred. Neither Floyd B. McKissick Enterprises (the project sponsor) nor The Soul City Company (the project developer) had directly received any Federal funds through grants, contracts, or loans in relation to the Soul City project. However, four other Soul City organizations receiving Federal funds did make disbursements to the project sponsor for rent and for expense reimbursements. The sponsor properly reduced appropriate expense accounts for all but two expense reimbursements totaling $350.45 from these organizations. The failure to properly credit the sponsor's expense account resulted in a $350.45 overstatement of predevelopment cost.

With the approval of OMBE, WRPC's contract was amended in June 1973 to allow an expenditure of $274,000 for direct support of the sponsor's efforts to obtain final Federal backing of The Soul City Company's bonds. Our review showed that WRPC spent about $223,000 for this purpose.

Although it is true that the $223,000 expenditure directly supported a profit-seeking company, it was not included in the predevelopment costs The Soul City Company claimed. Neither was the expenditure used as a basis for increasing the stated value of the owner's equity in Soul City properties or for drawing down proceeds of bond sales.

In an effort to determine whether the predevelopment costs had been incurred, we statistically sampled $360,916 of the predevelopment costs and found two minor discrepancies. The net effect of the discrepancies was that the developer could have included $388.22 additional as predevelopment cost on the cost certificate.

The results of our tests indicate that the developer incurred the predevelopment costs certified to HUD and that they were not previously paid by another Federal agency.

Soul City Foundation

> "The federal government gave $90,000 to Soul City Foundation to identify and apply for more federal, State, and private monies * * *."

The allegation identifies only one of the four grant objectives.

OEO awarded a $90,000 social advocacy planning project grant to the Soul City Foundation in December 1972. The goals of the advocacy project were to (1) plan a lifestyle for the new community which would be responsive to the needs of low-income residents, (2) prepare a program for identifying, recruiting, and relocating low-income families, (3) identify the resources, both human and financial, in the public or private sector to carry out the designed programs, and (4) assemble a detailed report designed to enable other new communities to strengthen the participation of low-income persons.

Our review of the grantee's performance showed that the grantee had done some work toward achieving each program activity except that of identifying, recruiting, and relocating low-income families. Due to the delay in the HUD

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closing and the heavy workload of the small staff, the Soul City Foundation decided not to plan and develop a program to meet this grant goal.

OTHER ALLEGATIONS

The following allegations did not readily fit into the above categories and are discussed separately below.

> "The Office of Federal Elections lists McKissick as a $500 contributor to the Black Committee for the Reelection of the President on May 22, 1972 * * *. There is a Federal law prohibiting political contributions by Government contractors at any time between the commencement of negotiations and the completion of their contract."

On May 22, 1972, Mr. McKissick personally donated $500 to the Black Committee for the Reelection of the President. We verified that the cash was not paid out of the resources of any Soul City organization. Title 18, section 611, United States Code, prohibits contributions by firms or individuals contracting with the United States. At the time of his donation, Mr. McKissick was an officer or director of three Soul City organizations which were negotiating for over $15 million in Federal assistance from HUD, OMBE, and OEO but he personally was not contracting with the United States. It appears to us that the Federal law was not violated. However, whether there was a violation of title 18 of the United States Code is a matter for consideration by the Department of Justice since title 18, section 611, is a criminal statute and not within the purview of our Office.

> "State and federal highway officials did McKissick a $535,317 favor by building roads through his development. Without this assistance the Soul City Company would have had to pay for its own roads. The company could have used Government-backed loan money to build them, but it would have had to repay the funds."

As of March 31, 1975, approved highway projects within the geographic limits of the Soul City project were to be financed as follows:

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Project	Number of miles	FHWA	HUD	Total Federal	North Carolina	Total estimated cost
RS-51(3) (note a)	0.5	$ 31,500	$ -	$ 31,500	$ 13,500	$ 45,000
RS-1709(1)	1.2	236,785	31,159	267,944	66,986	334,930
RS-1710(1)	0.7	67,268	33,841	101,109	25,278	126,387
Total	2.4	$335,553	$65,000	$400,553	$105,764	$506,317

[a]Canceled April 30, 1975.

On March 27, 1973, representatives from Soul City, FHWA, HUD, and the North Carolina State Department of Transportation met to discuss Soul City's highway needs. At this meeting HUD said it could provide funds to help finance Soul City's highway needs if the funds were committed by June 30, 1973. At this same meeting, the North Carolina secretary of transportation directed his staff to realine its priorities to help get Soul City roads constructed. Before this time North Carolina's 7-year highway plans for 1973-80 and 1974-81 did not include any highway construction in the county in which Soul City is located. Road project RS-1710(1), a proposed new road, was accepted into North Carolina's rural secondary road system on May 17, 1973. Projects RS-51(3) and RS-1709(1) had been part of the system for some time. HUD committed funds to supplement the three projects on June 29, 1973, and FHWA approved the projects on August 2, 1973. In October 1974 contracts totaling $461,317 were awarded for projects RS-1709(1) and RS-1710(1). Project RS-51(3) was canceled on April 30, 1975. The other two projects are currently under construction.

Since the two road projects under construction are included in North Carolina's secondary road system, they are eligible for Federal highway funds. The funds provided by HUD were properly authorized under section 718 of the Urban Growth and New Community Development Act of 1970. The Soul City Company will be responsible for building the residential roads in the Soul City project using HUD-guaranteed loan funds.

> "The U. S. Department of Commerce paid a New York firm $85,157 in 1972 - 73 to publicize the operations of Soul City * * *.

"Ten months after it got its federal contracts, the publicity firm [Eden Advertising and Communications, Inc.] quietly went out of business * * *.

"The payments to Eden were supposed to have been based on Eden's cost of publicizing Soul City. Although Eden was paid $85,157, it only claimed cost of $42,017. Of the first figure, Commerce auditors accepted only $7,429 as allowable under the terms of the contract."

On December 12, 1974, the Commerce Department's Office of Investigations turned over its findings to the Department of Justice's criminal fraud section in Washington, D.C. The Eden file has since been sent to the U.S. attorney in New York, and a decision on whether to prosecute Eden is pending.

ALLOWABILITY OF EXPENDITURES OF SOUL CITY ORGANIZATIONS

Using statistical-sampling techniques, we selected 349 expenditure transactions completed before April 1, 1975, from the Soul City organizations and sought to determine whether the expenditures had been made in accordance with the terms and provisions of the grant, contract, or loan guarantee and whether they were adequately supported by documentation. We also sought to verify that the goods and services procured had been received and had been used for their intended purposes.

We also scanned the accounting records of each organization and selected, on a judgment basis, 113 transactions that were (1) large dollar values, (2) between other organizations at Soul City, or (3) alleged to be improper.

For this test, we excluded compensation paid to employees of the Soul City organizations. Because payroll costs accounted for a large percentage of the total costs organizations incurred, we felt these expenditures warranted separate handling. The results of these payroll tests are discussed later.

RESULTS OF STATISTICAL AND JUDGMENT SAMPLES

The following table shows the number and dollar value of all cash transactions to April 1, 1975, and our samples.

	Total transactions (note a)		Statistical sample		Judgment sample	
Organization	Number	Value	Number	Value	Number	Value
The Soul City Company	885	$4,547,432	90	$673,400	12	$134,100
WRPC	1,321	872,600	80	72,900	49	99,000
HealthCo	1,527	513,200	100	40,400	42	93,900
Soul City Foundation	1,601	1,496,600	79	15,400	10	27,400

[a] Includes Federal, State, and private funds.

The results of applying the audit criteria to the transactions in our statistical samples showed that 86, or about 25 percent, of the transactions we reviewed did not meet 1 or more of the tests for allowability. When projected to the universe, on the basis of a 95-percent confidence level, the number of transactions which did not meet 1 or more of the tests for allowability ranged from 1,063 to 1,926. (See pp. 77 and 78.)

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Using the same criteria for allowability as we used in the statistical sample, we found that 39, or about 35 percent, of the 113 transactions in our judgmental sample did not meet 1 or more of the tests for allowability. (See p. 79.)

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Organization	Total	Number of transactions in statistical sample: Not in compliance with grant provisions	Inadequate documentation	Goods or services not received	Total number of errors
The Soul City Company:					
HUD, NCA	90	1	-	-	1
WRPC:					
HUD, Community Planning and Development	40	1	16	-	17
OMBE	40	2	8	2	10
	80	3	24	2	27
HealthCo:					
OEO	39	2	11	1	14
HEW, PHS	61	7	4	1	12
	100	9	15	2	26
Soul City Foundation:					
OEO and CSA	61	3	23	-	26
HEW, OE	14	1	4	-	5
Labor	3	-	1	-	1
NEA	1	-	-	-	-
	79	4	28	-	32
Total	349	17	67	2	86

Organization	Number of transactions: Universe	Statistical sample	Number in sample not meeting criteria	Range of number in universe not meeting criteria (note a): From	To
The Soul City Company	885	90	1	(b)	(b)
WRPC	1,321	80	27	315	583
HealthCo, Inc.	1,527	100	26	270	525
Soul City Foundation	1,601	79	32	478	818
Total	5,334	349	86	1,063	1,926

[a]Based on a 95-percent confidence level.
[b]Number of errors in sample too small to warrant projection.

Organization	Number of transactions in judgment sample: Total	Not in compliance with grant provisions	Inadequate documentation	Total number of errors
The Soul City Company:				
HUD, NCA	12	-	-	-
WRPC:				
HUD, Community Planning and Development	29	9	4	13
OMBE	20	10	1	11
	49	19	5	24
HealthCo:				
OEO	12	3	1	4
HEW, PHS	30	7	2	9
	42	10	3	13
Soul City Foundation:				
OEO and CSA	10	-	2	2
Total	113	29	10	39

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Dollar Value of Questionable Transactions in Samples

	Statistical sample	Judgment sample
Number of transactions sampled	349	113
Dollar value of transactions sampled	$802,000	$354,400
Number of transactions:		
Not in compliance with grant provisions	17	29
Lacking adequate documentation (note a)	67	10
Goods or services not received	2	-
Total	86	39
Dollar value of questionable transactions (note b)	$ 44,331	$ 51,883

[a]Documentation was not adequate for only part of the expenditures in some cases.

[b]In some cases only part of the transactions were questioned.

The Soul City Company

Our review of the 102 transactions in our samples of The Soul City Company disclosed only one for $35 which did not meet the criteria. However, in our samples we found three transactions totaling $189,000 which HUD would not permit to be paid from the guaranteed bond proceeds because the transactions were not in accordance with the project agreement.

According to the project agreement, only land acquisition and development expenses can be paid from federally guaranteed bond proceeds. The Soul City Company must use equity funds (its own funds derived from private sources) to cover other types of expenditures. In January 1975 The Soul City Company made a $180,000 loan commitment to the Soul City Foundation to provide the necessary funds to complete the first industrial building in Soul City, Soultech I. During 1974 The Soul City Company paid annual dues and other fees totaling $9,000 to the League of New Communities. Because HUD determined that these expenditures were not in accordance with the project agreement, The Soul City Company was forced to use its equity funds.

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Warren Regional Planning Corporation

Of the 129 transactions in our samples of WRPC, 22 transactions involving expenditures totaling $28,859 were not in compliance with agreement or contract provisions and 29 others totaling $38,295 lacked necessary documentation.

Of the 22 transactions found not in compliance with grant contract provisions, 11 had previously been questioned by the Office of Audits, Department of Commerce. For example, using OMBE contract funds, WRPC made two payments totaling $1,016 for travel expenses of Mr. McKissick. These expenses were for travel after Mr. McKissick left WRPC's payroll. The Department of Commerce audit report dated August 31, 1973, questioned the costs and stated the expenditures were for Mr. McKissick's travel and subsistence after he was no longer contractually authorized to perform under the OMBE contract. As of September 1, 1975, Commerce had not decided on the final disposition of the August 31, 1973, audit findings. We were told that a final determination on the questioned costs would be made after we completed our review.

Other transactions found not in compliance with contract or agreement provisions included (1) interest and penalties paid to the Internal Revenue Service for late payment of taxes withheld from employees' salaries, (2) loans to Floyd B. McKissick Enterprises, (3) expenditures for entertainment, and (4) consultant services not approved as required. For example, WRPC used HUD funds to pay $349.71 in interest and penalties to the Internal Revenue Service and to the North Carolina Department of Revenue. Provisions of the HUD agreements did not allow interest and other costs resulting from violation of or failure to comply with Federal, State, and local laws and regulations.

The absence or insufficiency of documentation to support the propriety of expenditures was a serious problem at WRPC. No documentation was available for 14 expenditure transactions, and there was inadequate documentation on file for 15 transactions.

--WRPC could not locate any documentation, other than canceled checks, for 14 transactions.

--Documentation for two transactions was not adequate to enable us to verify the accuracy of certain costs, such as insurance premiums, employees' salaries, office supplies, utility services, and equipment rentals, which had to be prorated among various programs administered by WRPC.

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--Thirteen travel vouchers were not prepared in accordance with regulations. The vouchers did not contain the necessary information to verify the propriety of the amounts paid.

HealthCo

Our audit of the 142 transactions in HealthCo disclosed 19 expenditures totaling $7,593 were not in compliance with grant provisions, 18 expenditures totaling $6,043 with insufficient documentation, and 2 expenditures totaling $419 for which goods or services were not received.

Transactions not in compliance with grant provisions include (1) improperly computed travel claims, (2) required OEO or HEW approval not obtained, (3) penalties and interest paid to the Internal Revenue Service for late payment of taxes withheld from employees' salaries, and (4) payment of a Soul City Foundation liability. Following are examples of transactions questioned.

--Travel claims were made which included incorrect mileage rates, mileage computation errors, and incorrect subsistence allowances.

--On Feburary 15, 1973, HealthCo paid taxes and interest totaling $731 to the Employment Security Commission of North Carolina. This amount represented the assessed tax for the first three quarters of 1972. Our analyses revealed that the taxes were for Soul City Foundation employees.

Our review disclosed 18 transactions which were not adequately supported.

--Eleven travel vouchers were improperly filled out. The vouchers did not contain the necessary information to determine the propriety of the amounts claimed.

--Documentation was not available for two transactions to determine why the expenditures were made.

--Documentation for four transactions was not available to determine whether HealthCo paid WRPC and Floyd B. McKissick Enterprises the correct amounts for its share of telephone bills and insurance premiums.

--Documentation for one transactions was not available to determine whether the items purchased were actually received.

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The two transactions for which goods or services were not received totaled $418.75. The transactions were for (1) payment of $15.08 for a motel room which was guaranteed but not used and (2) back pay of $403.67 for a suspended employee who was reinstated after a hearing.

Soul City Foundation

Of the 89 transactions in our samples of the Soul City Foundation, 4 transactions totaling $71 were not in compliance with grant provisions and 30 totaling $4,128 with insufficient documentation on file. Examples of the lack of documentation follow.

--Thirteen travel vouchers were improperly filled out. The vouchers did not contain necessary information to verify the propriety of the amounts claimed.

--The Soul City Foundation could not locate any documentation, other than canceled checks, for four transactions.

--Documentation on file did not adequately support the amounts paid for 13 transactions involving telephone bills, office equipment services, and insurance premiums.

PAYROLL AUDIT RESULTS

We randomly selected a pay period in 1974 and reviewed all payroll transactions. Each transaction was reviewed in accordance with the following criteria.

--The position; salary; and, if required, the individual holding the position was in accordance with the Federal grant, contract, or loan guarantee.

--An approved time and attendance sheet was on file for each employee paid.

--The gross wages were computed correctly.

In general, we found that payroll costs were correctly paid and properly controlled.

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SCOPE OF REVIEW

We directed our review to determining the project's history; current status; and sources and amounts of Federal, State, and local financial aid going directly to Soul City or the surrounding municipalities for the benefit of Soul City. We also examined various allegations relating to the project and tested the allowability of expenditures for four Soul City organizations.

We reviewed the basic laws, legislative history, regulations, policies, and instructions governing the new communities program. We reviewed pertinent documentation relative to reviewing, approving, and monitoring procedures for grants, contracts, agreements, the loan, and the loan guarantee awarded by the Federal agencies. Also we reviewed audit reports prepared by CPAs and agency internal auditors and determined the status of the findings therein. We interviewed officials of the agencies which provided assistance to Soul City and officials of the Soul City organizations.

We made our review at

--HUD, Washington, D.C., and Greensboro, North Carolina;

--Department of Commerce--OMBE, Washington, D.C., and Atlanta, Georgia;

--Department of Commerce--EDA, Atlanta, Georgia;

--CSA, Washington, D.C., and Atlanta, Georgia;

--HEW--OE and PHS, Atlanta, Georgia;

--National Endowment for the Arts, Washington, D.C.;

--Department of Labor, Atlanta, Georgia;

--Environmental Protection Agency, Atlanta, Georgia;

--Department of Transportation--FHWA, Raleigh, North Carolina; and

--The Soul City Company, the Soul City Foundation, WRPC, HealthCo, Floyd B. McKissick Enterprises, McKissick Soul City Associates, Soul City Sanitary District, and Soul City Utilities Company at Soul City.

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--Department of Labor, Atlanta, Georgia;

--Environmental Protection Agency, Atlanta, Georgia;

--Department of Transportation--FHWA, Raleigh, North Carolina; and

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