

MODEL CITIES PROGRAM, NEWARK, N.J.

HEARING
BEFORE THE
SUBCOMMITTEE ON HOUSING
OF THE
COMMITTEE ON BANKING AND CURRENCY
HOUSE OF REPRESENTATIVES
NINETY-SECOND CONGRESS
SECOND SESSION
ON
THE MODEL CITIES PROGRAM IN NEWARK, N.J.

SEPTEMBER 8, 1972

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MODEL CITIES PROGRAM, NEWARK, N.J.

FRIDAY, SEPTEMBER 8, 1972

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON HOUSING,
COMMITTEE ON BANKING AND CURRENCY,
Newark, N.J.

A special task force of the subcommittee met, pursuant to notice, at 10:10 a.m., in room 730, Federal Building, Hon. Robert G. Stephens, Jr., presiding.

Present: Representatives Stephens, Minish, and Widnall.

Staff present: Messrs. Prins, McKeever, and Ireland.

Mr. STEPHENS. The meeting will please come to order.

Before we hear from you, Mr. Mayor, I would like to make an opening statement as to what our purpose is and also to thank you for coming here to help us become informed.

This task force of the Subcommittee on Housing is holding hearings in Newark today in order that we may hear the views and opinions of local officials and local citizens, if they desire, on how Federal housing and urban development programs are actually operating in the field. Also, we will probably express our concerns to you as well.

Earlier this year the chairman of the Housing Subcommittee, our colleague from Philadelphia, Congressman William A. Barrett, designated a task force of members from the Housing Subcommittee to go into the field to get the grassroots view of how our programs are operating and what the people most directly affected think of them. (I really shouldn't say the "grassroots view" because most of our visits have been in urban communities where you don't have much grass.) Our hearings today will constitute another step in carrying out this task.

Thus far we have conducted similar hearings in cities which are as varied as can be. They include San Juan, P.R., Philadelphia, Pa., Atlanta, Ga., Dayton, Ohio, Albuquerque and Santa Fe, N. Mex., and San Jose, Calif. As you can see, we haven't been able to put a foot down much in Washington except in the middle of the week because our meetings have been on the weekend, which is the time that our wives say is supposed to be their own.

It is our hope, though, that through these hearings we can gain a better insight in how HUD programs are viewed and how they operate at the local level.

To my mind, and I think every member of the Housing Subcommittee will agree with me, field hearings such as this are essential if we are to legislate wisely and effectively.

It is all too easy for a Member of Congress to fall into the trap of receiving information on HUD operations solely from the admin-

istration, from industry groups, and from our own constituents. A broader and more comprehensive frame of reference is clearly necessary if responsible and responsive national legislation is to be enacted.

It is our intention that these hearings be informal and that those who testify feel free to present their views and discuss any problems that they may have to discuss with us with frankness and candor.

If at all possible we would like those testifying to limit their statements to 15 or 20 minutes in order that a maximum amount of time will be available for questions and general discussion.

The focus of our hearings will be on the Model City and public housing programs and FHA operations in the center city but we are also here to learn what your problems are and what your concerns are in connection with the entire gamut of HUD operations. We hope that you will feel free to discuss other programs.

This morning we will run until 12 noon. We will recess for lunch and then reconvene at 2 o'clock.

Before I call on you, Mr. Mayor, I would like to yield to your distinguished New Jersey Congressman, the Honorable Joseph G. Minish, who is a member of this task force. He has been to the other cities that I mentioned. Then when the Honorable William B. Widnall, also a distinguished Congressman from New Jersey, the ranking minority member of the Housing Subcommittee and of the whole Banking and Currency Committee arrives, we will call on him for whatever remarks he might like to make. I am going to yield now to Mr. Minish.

Mr. MINISH. Thank you, Mr. Chairman.

First of all, we are pleased that the subcommittee did find time to come up to New Jersey. The statement you made represents the views of the oversight committee of which I am pleased to be a member, and I am particularly pleased that we have the opportunity this morning of hearing from Mayor Kenneth A. Gibson, the mayor of the largest city in New Jersey, who can tell us some of the problems that he has in the city with public housing. FHA 235, and, of course, what his views are on Model Cities.

Mr. STEPHENS. Mr. Mayor, we are delighted that you have come to help us and guide us. Please feel free to take as much time as you would like. If you have a prepared statement that you would like to present for the record we will be glad to have it. Please feel free to present your testimony in any manner you would like.

At this point I would like to note for the record the staff members present. Mr. McKeever of the Housing Subcommittee staff, Mr. Casey Ireland of the Housing Subcommittee staff with the minority, and Mr. Curt Prins, who is on the staff of the full Banking and Currency Committee. Mr. Prins has gone into a lot of the details here as a result of an audit that was made by HUD, and if you can stay and hear what he has to say we will be delighted to have you stay, but you may proceed now in any fashion that you would like and take as much time as you would like.

STATEMENT OF HON. KENNETH A. GIBSON, MAYOR, CITY OF NEWARK, N.J.

Mayor GIBSON. Thank you, Mr. Chairman and Congressman Minish.

I, first of all, want to welcome the committee, the task force, to Newark. I think it is a great idea personally that you have the oppor-

tunity—I know you don't have the time—but that you have the opportunity to get a chance to go into the field and take a look at these cities.

I would hope that while you are here you may get an opportunity to take a look at the city in a tour. As I understand, you may have an opportunity to tour our public housing, our Model Cities area. I think that you may get a sense of what some of our problems are.

The housing and community development programs which are handled by our committee are critical certainly to the physical and social revival of Newark and the other major cities in the country. Our growing experiences with urban housing and community development programs show that just constructing new or rehabilitated housing will not solve the city's problems or lead to their renewal.

The heavily publicized defaults on FHA subsidized housing in many central cities has emphasized this lesson. The physical, social, and economic development programs must be working together if any one of them—any one of them—is to succeed in the inner city, certainly in Newark, and I believe that is true of any city.

In addition, there must be jobs, transportation, health services, day care services, and educational programs if new housing is to produce a new environment. Some important steps have been taken toward making such a comprehensive effort in the cities.

The Model Cities program permits a broad range of physical and social programs to be developed and applied to a specific neighborhood, the model neighborhood. But Newark, and other cities in the country, has recently been authorized through the planned variations concept to extend the Model Cities concept to a citywide program.

This planned variations concept, which extends the Model Cities program, will permit me as mayor to review a wide range of federally supported programs which would not otherwise come through the chief executive's office. I am sure you have heard complaints about the lack of ability to review programs from other city executives around the country.

One of the first things that I did when I took office in Newark 2 years ago was to visit each Department, each Secretary in Washington, to try to find out what exactly was happening as far as Federal programs in Newark, what kind of programs, how much money, and what were they supposed to be doing in the city. Unfortunately I never found out, I never got that total answer. That has been a part of our problem at the local level in dealing with some of the Federal programs.

I think the planned variations concept if properly applied may help us to alleviate that problem so we can develop our own priorities and have the Federal dollar relate to the needs of the city based on a planned approach, and that is why I support the planned variations concept. Primarily, of course, I would like to see, as most chief executives, more money involved in these kinds of programs, but I understand what the appropriations problems are. This should make it possible in the setting of goals and priorities to which the Federal as well as city funded programs will conform. We hope it will also lead to a similar and more expeditious Federal review of funding applications.

Newark has been allocated an additional \$7 million for expansion in the Model Cities program and to the additional neighborhoods of the city—

Mr. STEPHENS. May I ask you a question on that?

Mayor GIBSON. Yes, sir.

Mr. STEPHENS. That \$7 million, that is not in the addition to what you had, a little over \$5 million?

Mayor GIBSON. Yes; it is.

Mr. STEPHENS. You have your \$5½ million plus the \$7 million?

Mayor GIBSON. Yes, sir.

Mr. STEPHENS. For this second layer?

Mayor GIBSON. Yes, sir. The community development block grants which have been proposed in the housing bill passed by the Senate and is under consideration now in the House will be an important improvement over the current categorical grants for urban renewal and other HUD programs. Again the mayor would be in a better position than under the current legislation to establish the priorities of the city.

Now, such block grants, which are sometimes referred to as special revenue sharing, will, of course, be meaningful if more money is available to a city through those programs than through the categorical programs that they will replace. Passage of this bill is urgently needed in our opinion.

HUD has wisely broadened the 701 planning grant program to include the kind of management and planning staff which will be required for mayors and other chief executives to administer effectively the new authority under the block grants and other programs.

In Newark, we are establishing this new management and review capability through the planned variations in the 701 programs. But despite these positive steps, there have been many deficiencies and gaps in the Federal housing and community development programs.

For instance, for the lowest income families there is still no effective low density housing program. We have high-rise public housing. It is the only current alternative that we have.

Now we, in Newark, know the problems that develop from high-rise public housing. We know what it does for large families. The Federal Government is currently forcing housing authorities across the country, in effect, into bankruptcy by withholding subsidies which are needed by many of these authorities to replace rent revenue lost when they follow the Brooke amendment. As you know, this requires that the family be charged no more than 25 percent of their income.

I agree with the principle of the Brooke amendment that a family should not be required to pay more than 25 percent; but who picks up the cost?

Mr. MINISI. Can I interrupt here?

Mayor GIBSON. Yes, sir.

Mr. MINISI. Also under that amendment there are people that pay zero rent.

Mayor GIBSON. Yes, sir.

Mr. MINISI. The 25 percent is the high point but there are people right in our own city of Newark who pay zero rent under that amendment, which further complicates the problem.

Mayor GIBSON. Yes, sir; so somebody has to pick up that cost.

Mr. STEPHENS. That does not mean, of course, they have zero income.

Mayor GIBSON. No.

Mr. STEPHENS. There are exemptions that make it zero rent.

Mayor GIBSON. That is right. We all agree with the principle of allowing people who survive and have enough money to eat, the question is who picks up the costs, how do we subsidize housing beyond that?

I certainly don't want to give the impression that the specific situation in Newark where HUD has required a reorganization of the public housing agency, the Newark Housing Authority, should not go forward. I think that reorganization, proper management is required, but at the same time you can't expect any agency, whether it be a Newark Housing Authority or any other agency, to survive unless it has the ability, the basic funds, subsidy funds to survive.

The new site selection criteria that was established by HUD in response to the high rate of foreclosures on subsidized housing could severely restrict or even prevent construction and rehabilitation of housing in central cities. It is most important in our opinion that HUD not over-react to foreclosure problems by actually stopping cities such as Newark from getting subsidized housing approvals.

Mr. STEPHENS. That is 235 and 236 programs, to be specific.

Mayor GIBSON. Yes, sir. It is important, too, for HUD to be adequately staffed to process rapidly the new construction and rehabilitation applications.

Now, I don't have to go into it, but we have had a history of very long delays and complications in having approved those things that would be approved if there were additional staff available to handle and process applications.

Mr. STEPHENS. That is when you have to get in touch with your Congressman to speed them up.

Mayor GIBSON. Yes, sir. I have been to Congressman Minish's desk very often.

Mr. MINISH. We are aware of that, and the problem is prevalent throughout other areas. That is one of the things we plan to take up with Mr. Sweeney when he gets here, the long delay in servicing applications.

Mayor GIBSON. In your tour, if you have the opportunity of Newark, you will see in our opinion an extremely large percentage of vacant land, and part of our problem is it is great to process right through the demolition and clearance, but we have to also make sure that something happens as rapidly as far as the actual construction rehabilitation area, because a city like Newark, where about 40 percent of the land area pays all of the taxes, 60 percent of Newark is tax free, a \$20,000 house in Newark pays close to \$2,000 a year in property taxes. We can't afford to clear and not rebuild. We can't afford to allow these buildings not to be rehabilitated. So we need as fast action as possible in our applications.

Many of the progressive-Federal programs that we have mentioned, and I am sure you know about, have been authorized for only limited time periods. Model City programs, for instance, is well along toward the end of its 5-year authorization. Planned variations has been approved for only 2 years. I am sure you recognize that a city like Newark cannot take up the burden after the end of these programs, of the costs. We just can't afford it. So we have to be very careful in dealing with

the plans so that we are not saddled with the total cost of Federal programs after they end. That is a kind of tragic way to plan. It is very hard to plan for the future of a city when you are dealing with 2 years as a future or 5 years as a future.

The Federal Government—really, I guess all of us have a share of the blame in the fact that we have not really found an effective way to rejuvenate the economies of the decaying central cities. In Newark, where the property taxes are high, no really workable incentives have been devised to retain and attract commerce and industry. Some programs are available through the Economic Development Administration, and HUD supports industrial and commercial urban renewal, but a much broader range of assistance for economic development is required.

The future of America's cities depends on the development of the human potential; depends upon the physical building and rebuilding, rehabilitation; and also depends upon us being able to hold and attract those economic bases that a city needs to survive. If we have to tax our business and industry out of the city, as we are doing, there is a very dim future for the city. We are losing some industry; we are attempting to attract others. We are using the urban renewal processes to give written down land and tax abatements laws which are available in the State of New Jersey. We do as much as possible to hold onto the economic bases. Sometimes I feel that we may be fighting against the tide unless there is some kind of reorganization, rethinking, and restructuring of the economic way in dealing with the real economic bases of the city.

City hall cannot provide all of the jobs in any city. We hire maybe 7,000 people in the city. We have an unemployment rate in Newark that runs roughly 17 percent, which is very close to three times the national average. Probably more than in some cases.

The economy, in my opinion, cannot be held together just by government, whether it be Federal, State, or local. We have to have the resources and abilities, the governmental tools to make sure that we retain those people who do hold together the job-producing industries and efforts in our central cities.

With that, Mr. Chairman, I would like to close and thank you again for allowing me to be here with you, and I will be happy to answer any questions you have with the understanding that as far as the technical areas, as far as the details, our Model Cities director, I understand will be here with you this afternoon, and if there are technical questions which we can get answers for you, we will certainly do that as soon as possible.

Mr. STEPHENS. Thank you very much for the comprehensive way you have covered the problems.

I would like to ask you this: So far as Model Cities is concerned, How have you supervised the Model City program? Have you a part of the council or a member of council designated as the liaison between Model Cities and the council, or is it part of your office—what is the structure of supervision through your office to the Model Cities program?

Mayor GIBSON. The Model Cities program is a part of Newark's Community Development Administration which is a part of the mayor's office. It is directly in the mayor's office. Recently, with the be-

ginning of the planned variations concept, we have developed a liaison staff person paid for out of planned variations money, with the Newark City Council, with the legislative body. We hope to thereby eliminate some of the problems that we have had in trying to develop a program, a citywide program, for Model Cities expansion.

Mr. STEPHENS. Up until the time you had the variations program authorized, you couldn't use the Model Cities funds for liaison personnel?

Mayor GIBSON. Yes, sir; we could. We could have. There was no real restriction from HUD on whether or not we could use a staff person for that purpose. We just did not specifically designate a person as liaison between Model Cities and the Newark City Council. The director of the agency, Junius Williams, basically became that person. We appeared before the council when we had programs dealing with Model Cities at their, what they call, premeeting conferences to explain the program. There have been a series of out-of-city hall meetings, conferences, luncheons, and dinners where the city council and the Model Cities staff have sat together to discuss the program, but those are basically informal arrangements.

Mr. STEPHENS. How has citizen participation been structured in the Model Cities program here? Have they worked well with the people upon whom your Model Cities program is to operate?

Mayor GIBSON. Yes, sir.

Mr. STEPHENS. Have they run the program or have they just been consulted on the program. How has the structure been formed for citizen participation?

Mayor GIBSON. First, they have not run the program. The mayor's office in effect has been responsible for the administration of the program.

Mr. STEPHENS. Well, I will say that is exactly what we intended, for the mayor's office to run it.

Mayor GIBSON. What has happened is that in our model neighborhood, our model neighborhood was broken down into a series of districts, and we ran elections supervised and paid for out of Model Cities funds. We ran elections for representatives from those districts, and that model neighborhood then was represented by those people who were elected. It was an advisory board, as best I can—I guess that is the best word for it. It was certainly not a policymaking and decisionmaking group. They had regular meetings, we took into consideration the plans that they had, they sat with our staff and discussed the plans we had developed; when there was dispute, if any item became a dispute, we made the final decision.

Mr. STEPHENS. Well, now, you have indicated there is a problem as to what will happen when the Model Cities program ends, and that the experiment being made with the planned variations may be somewhat of an answer to that.

Mayor GIBSON. Yes, sir.

Mr. STEPHENS. And if we should have community development block grants that could also serve as a substitute somewhat; is that right?

Mayor GIBSON. Yes, sir. We believe—

Mr. STEPHENS. Do you feel that the community development program is the next step to the Model Cities?

Mayor GIBSON. Yes, sir.

Mr. STEPHENS. To a certain extent?

Mayor GIBSON. In a sense, yes. We are basically now dealing with the application of the Federal dollar, in my opinion, in a more effective way in allowing us to develop a plan for the community, entire city, in having that money deal with that plan. It is very hard to have, as we had, for instance, what we call a rat and pest program—I don't like that term—but to have a rat and pest control program that is restricted to the model neighborhood and tell a family on the other side of the street we can't come over there and deal with your rats, we can only deal with the rats on this side of the street.

Mr. STEPHENS. You are just going to run the rats from this side of the street across the street.

Mayor GIBSON. That is kind of a very glaring fault and difficulty we have in dealing with some of those restricted programs.

Mr. STEPHENS. I have one other question I would like to ask. What is the land inventory that you still have in your urban renewal projects that has not been—maybe I had better ask this—your urban renewal area consist of how many, about how many acres of land?

Mayor GIBSON. These are questions that I could probably take some intelligent guesses at, Mr. Chairman, but I wouldn't really be able to give you the answers. The public housing and urban renewal programs are administered by the Newark Housing Authority, which is a separate agency in Newark, and we can get you the facts and figures on those, but I would be afraid to take some wild guesses.

Mr. STEPHENS. If you would, we will be glad to have those submitted for the record at your convenience.

Mayor GIBSON. We will get those.

Mr. STEPHENS. Because you have touched upon that, saying that that land has to be put back into some revenue producing use.

Mayor GIBSON. As a kind of general comment, about 20 percent of Newark's land area, total land area, is actually designated as urban renewal land.

Now, take into consideration that 40 percent of Newark land area pays all of the taxes, 20 percent of Newark land area is designated as urban renewal projects. We have a number of urban renewal projects. Much of those urban renewal acres have been cleared, but the next step, which requires some construction, has not taken place. We can get you those percentages.

But in taking a look at Newark, we have a serious vacant land problem which is not just old buildings that have been dilapidated and that we have demolished because of decay, it is because of the slowness of the urban renewal processes in going all the way beyond that demolition step and getting into the actual construction.

Mr. STEPHENS. Well, you say 40 percent is bearing all the taxes, and 20 percent is in the urban renewal; and, of course, most of that is in that 40 percent.

Mayor GIBSON. Yes, sir.

Mr. STEPHENS. I mean not in the 40 percent, none of it.

Mayor GIBSON. Most of that is in the 40 percent. That part of our problem. Mostly urban renewal land will be bearing us taxes if we can get something constructed on it.

Mr. STEPHENS. That is 60 percent. So you have 40 percent of your land that would be in city buildings, county buildings, parks and recreation.

Mayor GIBSON. Highways. We have a number of State educational institutions in Newark and one Essex County college.

Mr. STEPHENS. You don't derive any income from that so far as your ad valorem tax is concerned?

Mayor GIBSON. No.

Mr. STEPHENS. You provide all the services like garbage collection, police protection, and everything for the area, and have no compensation for it?

Mayor GIBSON. That is right.

Mr. STEPHENS. I have a similar situation in my hometown where the University of Georgia is located. It has in the major sections of town a very large area and receives all of the services, and the town, of course, finances it.

Mr. MINISH, would you like to pursue—

Mr. MINISH. Thank you. Mayor, you have presented a very fine and detailed statement of the problems of the city. I am aware of many of them but not as intimately as you, since you are working at them every day. Many of the programs for which the city is getting money I not only sponsored but also worked very hard for their passage. Our concern, and we speak for the committee, and this was developed in other areas, is that some of these programs aren't getting down to the people. That is one of the things we want to develop later on; and, of course, we appreciate what you said earlier, that some of the technical questions you are not in a position to answer. So some of these questions will be taken up with the appropriate people in and out of city government.

I just have this one question, and let me say this, I am sure you agree with me before I ask you the question. You do want the programs that are being funded, whether it is model cities or any other program, to achieve the end for which the legislation was intended.

Mayor GIBSON. Yes, sir.

Mr. MINISH. If there are areas where the hearings develop that the committee doesn't feel that it is going that way, I am sure you would take appropriate action, if I know Ken Gibson?

Mayor GIBSON. Absolutely. The only real purpose for government in my opinion is services to the public, and the public is 400,000 people in Newark.

Mr. MINISH. That is all I have, Mr. Chairman.

Mr. STEPHENS. Let me ask you one question that has concerned me because I first really became aware of it during a visit we made to Philadelphia. There has developed in the housing authority there an inability to collect rent, and they have with the operating deficits caused by the Brooke amendment and the nonpayment of rent, a \$15 million deficit in the program. The only alternative now that they have is to ask for a contribution from HUD.

I also have understood that here in Newark, the housing authority has about a \$4½ million deficit based upon a combination of the Brooke amendment deficit plus the fact that you have also had a non-payment of rent.

Mayor GIBSON. Yes, sir.

Mr. STEPHENS. What is the relationship between the welfare recipients who receive welfare checks in order to pay their rent but go on a strike and don't pay it? Do you know how many recipients of welfare are in the housing authority units?

Mayor GIBSON. No, sir; I really don't know that answer.

Mr. STEPHENS. But is it a problem?

Mayor GIBSON. It is a serious problem. There is a large percentage of the public housing tenants who are also welfare clients. We do know that. It does present a problem.

The rent strike situation is one that I think personally, I really don't want to get in trouble with HUD or the tenants or with the housing authority in dealing with that. Nobody likes to pay his rent. Rent is a serious problem.

Mr. STEPHENS. I don't like to pay anything unless I have to.

Mayor GIBSON. That is right. I think there are ways to deal with those situations, which can be very effective, and I personally think the best way to deal with it is very early. You let those rent strikes run for a long time and you have serious problems.

Mr. STEPHENS. That is very true. I think what you mean is something like this. If you have 6,000 people, as the evidence showed was the number of people that are eligible to be evicted for nonpayment of rent in the housing authority in Philadelphia, you can't take 6,000 people and evict them all on 1 day.

Mayor GIBSON. That is right.

Mr. STEPHENS. For humanitarian purposes you can't do it, and also you would start a riot if you did it, and which must be avoided. One of the excuses offered in Philadelphia was that the State legislature in Pennsylvania had repealed the law that dealt with the establishment of constables that were receiving the eviction processes and causing the people to be moved and that the sheriff said he didn't have enough personnel to keep up with the number of eviction notices.

Do you have any problem like that in New Jersey that you know of where you don't have enough personnel, if it were handled initially like you said, before it got out of hand?

Mayor GIBSON. I personally think if it had been handled initially we would have enough personnel, and that is a county function, the constable, but I think they can handle the problem if they don't have to deal with 6,000 people. At the point they are right now, I don't think they can handle them. We do have constables.

Mr. STEPHENS. Part of your reorganization of your housing authority was based upon the weakness of the existing leadership there to stop the rent strikes from occurring?

Mayor GIBSON. I don't know, HUD would have to answer that one. They did have a hearing which they released their findings and directed that there be a reorganization.

As you probably know, I have had a continuous problem with the Newark Housing Authority and I don't think that is a part of the reason for your asking me to come here, and I really don't want to get into the details of that one. I think it is more of an administration problem with us here in Newark.

Mr. MINISH. Has it improved with the new executive director?

Mayor GIBSON. Not yet.

Mr. MINISH. You said earlier that you are concerned about the low-density home program and this gets into the hardware area of the model cities.

Have they been doing anything at all in that area?

Mayor GIBSON. Very little. We dealt with the plan that we inherited. Basically, the model cities plan we inherited. The low-density program had not been a part of that plan. But we have been very effective at making use of project rehab in Newark. The last HUD group that toured the city called our project rehab the best in the country. I think that with certain central cities, with especially masonry structures, rehab may be a partial answer to some of our decay problem.

Mr. STEPHENS. Is vandalism a problem in the areas that have been rehabilitated? Is that one of the reasons that they had to be rehabilitated?

Mayor GIBSON. No, sir. Newark is a very old city. We are over 300 years old. So our rehabilitation efforts really are dealing with buildings that died a natural death and we have to rehabilitate them. The vandalism that has occurred in other cities relate to relatively new buildings is another kind of phenomena. I think that public housing, for instance, has an unusual problem with vandalism that—

Mr. STEPHENS. That is here as well as other places. I know it is true in Atlanta and I know it was true in Boston, Mass.

Mayor GIBSON. As far as the rehab program in Newark, it is dealing with the fact you have an old building that should have been retired from use years ago.

Mr. STEPHENS. This rehab is basically residential?

Mayor GIBSON. Yes, sir.

Mr. STEPHENS. And is it homeownership, home owned, the person who is doing the rehabilitation owns the place and lives in it?

Mayor GIBSON. Yes, sir. What happens is our city has been divided up into a number of what we call rehab areas and the sponsors of rehabilitation efforts in those areas have been community-based corporations and those people who have had experience in rehabilitation, they actually purchase old buildings, rehabilitate those buildings and rent. So it is a management corporation.

Mr. STEPHENS. Is it a nonprofit group?

Mayor GIBSON. No, sir; these are profit operations.

Mr. STEPHENS. Private enterprise?

Mayor GIBSON. Yes, sir; profitmaking operations which have been sponsored and developed with community participation. We have some community people involved in them.

I think one of the things we are finding out, and I think other cities can learn, if there is a profit incentive in many cases, you get more work.

Mr. STEPHENS. You get more for your money on that.

Mayor GIBSON. Yes, sir.

Mr. MINISH. Is this rehabilitation in the Model Cities area alone?

Mayor GIBSON. Yes, sir. Not alone, a large part of it is in the Model Cities area. We have one other major area that is outside of the Model City area, South Broad Street down around Lincoln Park.

Mr. MINISH. Is this under HUD's program of rehabilitation loans?

Mayor GIBSON. Yes, sir.

Mr. MINISH. It is under HUD direction, the rehabilitation program?

Mayor GIBSON. Yes, sir.

Mr. MINISH. In other words, Newark has been designated after study as a rehabilitation city?

Mayor GIBSON. Yes, sir.

Mr. STEPHENS. We certainly appreciate your response and we thank you for your time and if there is any further information you would like to present for the record, feel free to do so.

Mayor GIBSON. We will certainly give you that information on the land areas relative to public housing and urban renewal.

Mr. STEPHENS. Thank you very much. We will be glad to have you stay but understand that you have a great deal to do.

Mayor GIBSON. Thank you very much.

Mr. STEPHENS. The next witness that I would like to call is Mr. Curt Prins. Mr. Prins is the chief investigator of the Banking and Currency Committee. As a result of the audit made by HUD here there were several kinds of, I don't know exactly how you would designate them, but there were several points in the HUD audit that left us, as far as our ad hoc subcommittee is concerned, with some questions. We thought that it might be a good idea for the committee itself to have someone come and see, follow up on the HUD audit. Under those circumstances, Mr. Prins came here and spent several days and we would like to have as part of the record of this committee the HUD audit, if that is all right with you, Mr. Minish.

Mr. MINISH. Yes, sir.

Mr. STEPHENS. And then for our witness, Mr. Prins, to present for the record, too, his investigation of the questions raised in the HUD audit. One of the purposes of asking Mr. Prins to do this is for his testimony to be a part of the public record. People who are here or were given an opportunity to be here can have the advantage of his statement and offer rebuttal to any portions they wish.

So, Mr. Prins, we would be glad to have you proceed with your statement and then if questions arise from either Mr. Minish or from me, we would like you to respond.

(The HUD audit referred to follows:)

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

OFFICE OF AUDIT

REPORT ON AUDIT OF THE COMPREHENSIVE CITY DEMONSTRATION PROGRAM

CITY OF NEWARK COMMUNITY DEVELOPMENT ADMINISTRATION, NEWARK, N.J.

Issue date: January 31, 1972.

Audit Case Number: OS-4-2005-4302.

To: S. William Green, Regional Administrator, Region II, New York, N.Y.

From: R. L. Falcon, Regional Manager, Office of Audit, Region II.

Subject: Report on Audit—Contract No. ME-29-001, City of Newark, Community Development Administration, Newark, N.J., for the period April 1, 1969, through June 30, 1971.

INTRODUCTION

We have made an examination of the books and records of the Community Development Administration of the City of Newark (herein called the COA) for the subject audit period. The examination included a determination whether the

CDA (1) has an adequate system for monitoring the projects and activities in the approved program; (2) has a system which properly accounts for receipt of supplemental funds and controls the flow of funds to the projects and activities; (3) has and is implementing a plan for the evaluation of projects and activities; (4) disburses funds in furtherance of authorized activities; and (5) conducts its activities and makes expenditures in an effective, efficient and economical manner. The examination was made in accordance with generally accepted auditing standards and included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The accompanying schedules, with due consideration to the findings and comments contained in this report, in our opinion, present fairly the recorded program costs of the Model Cities Program at June 30, 1971, in conformity with the accounting procedures prescribed by the Department of Housing and Urban Development (HUD).

SUMMARY

Our review disclosed certain accounting and administration deficiencies which we believe weaken the effectiveness of the system of internal control. We also believe that the CDA should improve the monitoring and evaluation activities of its operating agencies in order to determine whether programs are achieving their goals, are on schedule, and if such programs should be continued or discontinued. In addition, our review disclosed several weaknesses in the CDA contracting and procurement procedures which, in order to be fully effective, require strengthening and/or correcting. These items and other deficiencies noted are discussed in the ten findings included in this report.

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 Financial Management Advisor, Region II (5).
 Area Director, Newark Area Office.
 Chief, Finance and Mortgage Credit Section, Newark Area Office.
 Director, Operations Division, Newark Area Office.

BACKGROUND

The Model Cities program is administered by the Community Development Administration. Activities of the Model Cities program are governed by the Mayor and City Council of the City of Newark.

Planning activities of the program under HUD Contract No. MP-29-001 have been completed but no Certificate of Completion of the Planning Program has been filed by the CDA as of the audit date. Total planning costs at June 30, 1971, amounted to \$279,185.50. The total planning grant earned by the CDA and approved and paid by HUD was \$204,000, the maximum amount provided in the Planning Grant Contract.

Costs between the planning period and execution of the contract for the first action year were authorized by HUD under a Letter to Proceed dated May 12, 1969, plus three amendments thereto. On March 17, 1970, HUD and the City of Newark entered into the Grant Agreement under Contract No. ME-29-001 for a Comprehensive City Demonstration Program. Based on this agreement and the latest approved budget, the Government will pay the City (1) \$5,654,000 or (2) 80 percent of the actual cost of program administration or \$1,445,000, whichever is less, plus 100 percent of the actual cost of the projects and activities allocable to the Grant (Supplemental Costs) or \$4,209,000, whichever is less.

INTERNAL CONTROL

The CDA's system of internal control has certain weaknesses related to its accounting and administrative procedures. These deficiencies are discussed in detail in Finding 9 of this report.

Notwithstanding the above deficiencies, the CDA's system of internal control over cash did provide for (1) direct deposits of HUD letter of credit drawdowns into the CDA's bank account; (2) approval of vouchers by the Director; (3) two signatures on each check (Director of Finance and City Comptroller); and (4) adequate bonding of checksigners.

ACCOUNTING RECORDS

The CDA has established a set of books which meet the requirements of Chapter 2 of HUD Handbook MCGR 3100.8. However, there were several accounting and administrative deficiencies noted during our audit. These matters are discussed further in Finding 9 of this report.

FINANCING

At June 30, 1971, Program Administration Costs were \$1,573,082.05 and Supplemental Costs were \$1,511,707.06. These costs were financed by HUD letter of credit drawdowns of \$2,437,425 and CDA cash-equivalent contributions of \$220,687.30. The CDA contributions were received from the City of Newark and the State of New Jersey. These contributions were used for program administration salaries, fringe benefits, staff training, newsletter and miscellaneous costs.

FINDINGS AND RECOMMENDATIONS

PRIOR AUDIT

All prior audit findings have been cleared by appropriate actions of HUD.

CURRENT AUDIT

The following findings were discussed at a meeting held November 24, 1971, attended by: Junius William, CDA Director; David Dennison, CDA Deputy Director; Fleming Jones, Jr., CDA Comptroller; Raymond M. Kelly, Assistant Regional Manager, HUD; Vincent J. DePierro, Auditor, HUD; and Edward McKenna, Auditor, HUD.

Finding 1: Improvements needed in monitoring and auditing of CDA operating agencies

Our review disclosed that the CDA had not complied with HUD regulations regarding the necessary accounting systems evaluations, fiscal monitoring and required auditing of the projects administered by the Operations Agencies (OAs). There was no systematic collection of data from the various projects, no effective distribution of this data to the appropriate CDA departments once it had been collected and, consequently, the CDA had no assurance that the funds furnished to the OAs were being used effectively and efficiently to accomplish the purposes for which the funds were made available.

a. Accounting systems evaluations

Although the CDA had disbursed funds during the first action year to all of its independent OAs, it did not make any accounting systems evaluations during this period. Three systems evaluations were made subsequent to the first action year; in some cases, however, these were being done more than nine months after an OA had received funds.

Chapter 10 of HUD Handbook MCGR 3100.8 states that the CDA is responsible for determining that each OA has adequate fidelity bond coverage, accounting, reporting, and internal control systems. It requires further that these systems be evaluated prior to the disbursement of any funds to an operating agency. In this regard the CDA may use its own staff or obtain the services of an independent licensed public accountant as necessary. Each systems evaluation should be fully documented to support the decision as to the adequacy or inadequacy of each system, and the documentation in support of these evaluations must be retained for audit or inspection by HUD.

b. Monitoring and auditing

The CDA has not effectively monitored the activities in which it is engaged. It does not have a system for receiving any type of data regularly from the

operating projects which could be used to continually monitor and evaluate the progress and effectiveness of the related activities.

Chapter 9 of HUD Handbook MCGR 3100.8 requires that the CDA shall obtain monthly financial reports from the OAs containing data similar to that which must be reported monthly to HUD. Chapter 10 of this Handbook further provides that the CDA shall monitor the operations of each OA to assure that, among other things, it is maintaining adequate systems and that the funds furnished are being used effectively and efficiently and as originally programmed.

Our review of the CDA's files relative to its OAs, in addition to site visits to two OAs, verified that financial reports are not sent to the CDA on any regular basis. In this regard, it seemed that an OA submitted fiscal data to the CDA only when its funds had been depleted. Moreover, the staff of the two OAs visited stated that they were not even aware that fiscal reports should be submitted monthly. Discussions with the CDA staff revealed that its Operation Department has the responsibility for the accumulation of such project data. Nevertheless, we could find no system in effect that would flag a project which did not submit the necessary monthly reports.

Without the essential management and financial controls, as required by HUD, the CDA cannot efficiently and effectively utilize its available financial resources and at the same time be assured that the interests of the City and HUD are being properly safeguarded. The absence of systems evaluations prior to the disbursement of funds to OAs coupled with the lack of an adequate and effective reporting system constitute serious monitoring weaknesses and emphasize clearly the need for extensive improvement in the CDA's monitoring policies and techniques. Chapter 10 of HUD Handbook MCGR 3100.8 further provides that as a part of its monitoring responsibility, the CDA is expected to make periodic audits of the fiscal and accounting operations of the OAs, either by using its own staff or independent public accountants. In addition, Circular MC 3145.5, dated August 1970, provides that within 90 days (unless specifically extended by HUD) of the start of the second action year of its Model Cities program, the CDA shall have on file a City approved audit report for any OA it is required to audit. Where an audit report is not available within 90 days from the start of the subsequent action year, the CDA shall cease further Model Cities grant funding of the OA until such report is available.

As at September 30, 1971 (the end of the 90-day period), only one of the required audits had been completed. At the completion of our field work on November 24, 1971, one additional audit report was available for the remaining eight OAs which are administering Model Cities projects. CDA officials have advised us, however, that audits are now either scheduled or in process for all OAs.

In regard to our review of the issued reports on audit and accounting systems evaluations, we noted that the audit report issued pertaining to the operating project administered by the American Red Cross was dated August 27, 1971, which was only one month later than the accounting systems evaluation issued July 27, 1971, for the same OA. Under the present circumstances, we do not believe that separate systems evaluations and audits are practical, efficient or necessary. Moreover, in order to conserve available program funds, we consider it reasonable and logical to expect such systems evaluations to be made as part of the initial audits of the OAs, particularly since these audits are already past due.

RECOMMENDATIONS

Effective monitoring is centered around a strong organizational structure, meaningful monitoring data, complete data analysis and an effective system for distributing monitoring information. In order to achieve this we recommend that the CDA be required to:

1. Establish an effective system of monitoring and auditing the OAs in the future. In this regard, furnish sufficient instructions to OAs concerning eligible and ineligible costs, and applicable reporting requirements; establish a system to control the receipt of all scheduled data and reports from the OAs; and ascertain through its monitoring and auditing efforts that the projects administered are progressing on a timely basis in relation to the costs being incurred.

2. Take immediate steps necessary to cancel any scheduled accounting systems evaluations and arrange for such reviews concurrently with the initial audits of

the OAs; further, a schedule should be set up for making all future audits on a regular basis. In arranging for such audits, the CDA should make certain that the independent auditors are thoroughly familiar with HUD audit requirements as set forth in Paragraph 35 of HUD Handbook MCGR 3100.8. The experience gained from these audits could be most useful to the CDA in evaluation of OA performance and anticipation or preclusion of current or future problems.

REPLY

a. Accounting systems evaluations

Many of the Operating Agencies under review with respect to this finding were under contract prior to the present CDA Administration. Therefore, it was some time before it was learned that the systems evaluations had not been completed. Even then, the process of obtaining an independent public accounting firm to perform this function required some time. Also, it must be noted that many of the systems evaluations to correct the above deficiencies were started prior to the end of our first action year. At the time the HUD auditors were present we were conducting systems evaluations of OAs that had been selected to carry out the carry-over and nonrecurrent aspect of our first action year program. The HUD examiners did not make any distinction with respect to this activity.

b. Monitoring and auditing

The CDA substantially agrees with the HUD auditors in this respect that we did not carry out an effective program for monitoring the activities of the OAs in the first action year. This was due mainly to two things: (1) we did not have sufficient staff fiscally to carry out the above functions; (2) there was no effective system administratively to insure that the OAs did submit the required monthly statements. However, under no circumstances were OAs given money without first submitting a financial statement, although the statements in many cases were months past due. In respect to the evaluation of the American Red Cross as mentioned in the auditor's report, we had had a systems evaluation of this project prior to going to contract; the auditors that were selected by the previous administration to conduct this evaluation was Samuel Klein & Co., and due to the political atmosphere that existed at that time, they refused to issue the report.

Improvements made: Improvements and corrections contemplated and made regarding the deficiencies in dealing with the OAs on all aspects of contracts' monitoring and fiscal reporting requirements, the CDA retained the services of Systems Discipline Inc. This firm was commissioned under a national HUD contract to assist and develop a complete contract, systems evaluation and reporting system. Implementation of their proposed system was inaugurated with the initiation of the second year planning; as a result: (1) all OAs are evaluated fiscally prior to going to contract and before the disbursements of any funds; (2) all OAs are required to furnish monthly financial reports and this is stated very succinctly in the contract with the OAs.

The divisions of operation and evaluation have been given the primary responsibility for obtaining and clearing this information. The CDA fiscal office has currently requested expansion of its staff to carry out a monthly on-site audit of all OAs.

Finding 2: Need for effective evaluation of CDA activities

Our review of the operating projects and matters relevant to evaluation disclosed that the CDA did not have an effective system of evaluation. The quantitative data available concerning the activities of the OAs is insufficient for the CDA to determine whether program and project objectives are being attained or the extent of any accomplishments.

The CDA did evaluate five projects during the first action year. The date which formed the basis for each evaluation, however, was obtained through visits of the CDA staff to these projects and gathering certain information in what appeared to be an informal and haphazard manner. As was the case regarding monitoring activities, the CDA does not receive any type of report from the projects on a regular basis. Further, no systematic guidelines have been set forth for the projects to follow in preparing and submitting such reports. Reports containing evaluation data should be submitted monthly and should

give the detailed basic data of the applicable projects. This data would then be used to evaluate each project on a continual and current basis.

Because of the limited evaluation performance, we could not determine if the various programs and projects had been effectively operated and had achieved their goals. Inherent in the concept of the Model Cities program is the necessity for evaluation of program and project performance and effectiveness. Adequate evaluation requires a clear definition of the problems and a clear definition of the goals and assumptions of the local program and the development of projects and activities within a framework that facilitates evaluation. It should not be deferred until a project is completed, or nearing completion; furthermore, it should be a systematic and continuing process supplementing the continuing planning process and reflecting therein the information gained from evaluation and other data collection activities.

We realize there are many problems which may have precluded certain first year projects from being started on a timely basis and that these problems may have hindered the CDA in implementing an effective evaluation system for program activities. Such difficulties notwithstanding, if proper evaluations of the projects had been made, the CDA could have provided additional direction and help to any program that was behind schedule or was not achieving its goals. Moreover, we believe that the absence of an effective evaluation system is responsible, at least in part, for the need to reprogram a portion of the first year grant funds in the second action year.

RECOMMENDATIONS

We recommend that the CDA first implement a system requiring projects to submit standard monthly reports which include the necessary quantitative data of the project's activities. In addition, the CDA should furnish standards and guidelines to be followed in the preparation and submission of these reports in order that the effect of the program on the community and the degree of accomplishment with program objectives can be measured. The CDA's subsequent evaluation of these reports and the related activities should enable it to provide additional direction and help to any project that is behind schedule or is not satisfactorily achieving its goals, or of equal importance, to determine whether a project should be continued or discontinued. Hopefully, such continuing evaluation may also minimize the need to reprogram unused project funds during the second action year.

REPLY

Improvements and corrections taken commencing with our second year planning; projects are also required to submit quantitative data on the project's activities on a monthly basis. In order to assure that this information is being furnished, the CDA has given to all OAs simplified reporting guidelines which would aid in providing the necessary information. In addition, a technical assistance team composed of a representative from fiscal, operations and evaluation would be available to assist any OA in preparing necessary reports.

Finding 3: Executive drawdowns under the letter of credit procedures

Our review of the CDA's procedures for making drawdowns from their letter of credit disclosed weaknesses which resulted in excessive withdrawals of funds from the U.S. Treasury which were in excess of program requirements.

Chapter 5 of HUD Handbook MCGR 3100.8 requires the CDA to adhere strictly to all the provisions of the Letter of Credit Procedures. Paragraph 3a of HUD Handbook 1900.4A, Letter of Credit Procedures, states that cash advances shall be limited to the minimum amounts possible and shall be timed as close as administratively feasible to the daily needs of the recipient organization.

As a result of excessive drawdowns the Federal Government has been denied the use of the funds; interest has been lost because cash balances were not invested; and the intent of the Letter of Credit Procedures has been circumvented.

The following schedule of drawdowns and monthly cash disbursements shows the extent of the excessive drawdowns and resultant cash balances at various month-end dates:

Month	Letter of credit		Monthly cash disbursements	End of month cash balance
	Date	Drawdown		
Balance at March 1970.....				\$814.66
April 1970.....	Apr. 1, 1970	\$250,000	\$263,679.68	47,670.58
	Apr. 8, 1970	40,000		
May 1970.....	Apr. 28, 1970	20,000	62,229.59	48,103.00
	May 24, 1970	60,000		
June 1970.....	June 15, 1970	50,000	65,621.09	42,645.00
July 1970.....	July 17, 1970	85,000	78,420.15	52,978.61
August 1970.....	Aug. 12, 1970	110,000	84,178.93	152,368.78
	Aug. 20, 1970	70,000		
September 1970.....	Sept. 18, 1970	162,425	101,222.68	216,872.19
October 1970.....			163,146.99	57,332.30
November 1970.....	Nov. 16, 1970	60,000	107,693.46	15,722.80
December 1970.....	Dec. 8, 1970	75,000	123,392.33	75,007.39
	Dec. 10, 1970	100,000		
January 1971.....	Dec. 28, 1970	80,000	184,120.09	71,971.18
	Jan. 8, 1971	100,000		
February 1971.....	Feb. 10, 1971	150,000	170,992.45	157,191.35
	Feb. 24, 1971	100,000		
March 1971.....	Mar. 2, 1971	100,000	156,642.60	254,203.63
	Mar. 12, 1971	150,000		
April 1971.....	Apr. 2, 1971	150,000	237,840.42	121,148.04
May 1971.....	May 13, 1971	125,000	229,297.20	102,455.04
June 1971.....	June 2, 1971	150,000	412,786.70	89,778.93
	June 14, 1971	250,000		
Cash balance as of Sept. 30, 1971.....				182,447.75
Cash balance as of Oct. 18, 1971.....				134,743.32

1 These balances obtained from the city of Newark treasurer's department.

The above indicates that the CDA's procedures currently in use are inconsistent with the intent of the letter of credit provisions since at the end of each month (except November 1970) excessive HUD cash was on hand and drawdowns were not on a periodic "as needed" basis. The CDA is reminded that once a letter of credit voucher is approved, it requires usually only three or four days until the funds are available. Therefore, smaller and more frequent requests should be made by the CDA. The objectives of the letter of credit are to provide funds to the CDA promptly for HUD programs as they are needed and to preclude their withdrawal from the U.S. Treasury any sooner than is absolutely necessary.

RECOMMENDATION

We recommend that the CDA adopt a planned method of determining its cash needs on a periodic basis. This method should be written and retained for audit purposes to support the CDA's decisions. Drawdowns should be more frequent and consistent with the needs of the HUD programs.

REPLY

Presently we are working under arrangement with the City Treasurer's Office that when our actual cash balance is less than \$100,000, the CDA fiscal office will be notified; at that point a Letter of Credit request is initiated. However, a method of reimbursement based on cash flow is being planned and as soon as this is completed and approved by the City's Director of Finance, a copy will be forwarded to the HUD Regional Office.

Finding 4: Premature remittance of funds to the city acting as an operating agency

The CDA remitted \$102,354 to the City of Newark to be used as its contribution for the Youth Aid and Services Project. The City is to act as the OA and these funds are to be used for salaries and fringe benefits as proposed in the first year work program. The details relating thereto are as follows:

Contractor	Contract		Payments	
	Amount	Date	Amount	Date
Office of mayor.....	\$93,643	May 1, 1971	\$93,643	Aug. 27, 1971
Newark Police Department.....	29,746	Apr. 1, 1971	8,711	June 11, 1971
Total.....	123,389		102,354	

1 Although paid after the 1st action year, this amount was set up as an accounts payable and charged to supplemental costs as at June 30, 1971.

Chapter 10 of HUD Handbook MCGR 3100.8 provides that amounts remitted by the CDA shall be timed to be as close as administratively possible to the daily cash needs of the OAs. Moreover, the above contracts provide for payment on a reimbursable cost basis—barring documentation evidencing a financial emergency in the OA—supported by a monthly report submitted to the CDA by the OA on all accumulated costs to the end of the reporting period. Also, ten percent of the total compensation shall be withheld pending final audit by the CDA.

The above notwithstanding, the CDA had recorded costs in the amount of \$102,354 as at June 30, 1971, even though the City had only incurred a portion of the costs for which these funds were intended. The CDA stated that the funds were advanced in this manner because the books of the Youth Aid and Services Project (an In-House Project) had not been maintained currently although actual costs had been incurred at June 30, 1971. The CDA further advised that at September 30, 1971, the City had only incurred costs totaling \$33,255.31 under the two contracts involved (\$25,547.15 and \$7,708.16, respectively).

The practice of disbursing funds in advance of documented needs weakens the CDA's cash position and contributes further to making unnecessary drawdowns under the Letter of Credit Procedures. Weaknesses noted in connection with the CDA's letter of credit transactions were reviewed further in Finding 3.

RECOMMENDATION

We recommend that the CDA determine the actual costs incurred to date for this project under the two aforementioned contracts, accumulate and maintain on file the required documentation to support such costs and, if applicable, obtain reimbursement from the City for those funds advanced in excess of its documented needs. The City as an OA should not require an advance of funds and, accordingly, should be reimbursed on an actual disbursement basis only.

REPLY

Improvement and corrections taken as of this date: A voucher for refund of \$50,000 representing the unexpended portion of the amount so stated in this finding has been prepared for the City operating project in question. With respect to the auditors' recommendations on advances of funds to the City, I must state at this time it may be extremely necessary to advance funds to a City OA in lieu of working on an actual reimbursement basis, particularly since the City is operating on a tight cash flow.

Finding 5: Cash-equivalent contributions not adequately documented, questioned \$175,806.48

Our review disclosed that the documentation presented to support cash-equivalent contributions recorded by the CDA in the amount of \$220,687.30 was incomplete. Cash-equivalent contributions for salaries originated from the following sources:

Mayor's office personnel.....	¹ \$24, 846. 79
City planning department.....	² 82, 539. 99
Fund 87 (State-sponsored program).....	³ 118, 419. 70
Total	175, 806. 48

¹ Mayor's Office Personnel included a portion of the former Director's and his secretary's salary. These were not supported by signed statements or time records in order to determine the propriety of the contribution recorded.

² City Planning Department contributions were recorded based on monthly reports signed by the Planning Director which indicated the name, title, annual salary, percentage of time contributed, daily rate, number of days and amount of the contributions. The CDA does not have any other documentation such as daily time reports signed by each employee to support the monthly report. The only other documentation available was a time and attendance report; from this report and additional verifications performed, we were able to determine the following:

(1) The percentage of time contributed is predetermined and not established by daily time records. This remained the same month after month on the reports submitted.

(2) The number of days represented the number of working days in a given month and did not give consideration for annual, sick, or compensating leave taken. Our tests disclosed one employee who was included in the contribution and who was on sick leave the entire month. Other differences were also noted in our tests.

³ Fund 87 represents a contribution from a portion of a State-sponsored program rendering administrative assistance to Model Cities which was included in the first year approved work program. The contribution was recorded based on the charges recorded on the State's program books for Code 41-01. We were unable to trace all contributions recorded to the pertinent cost records and, since we are not responsible for the audit of these records, an eligibility determination cannot be made. The CDA does not maintain time records or other documentation to support the contribution.

Cash-equivalent contributions represent the City's share of the program and consist of services actually performed. Paragraph 21 of HUD Handbook MCGR 3100.8 outlines the minimal information that the CDA should have readily available in its files in order to determine the eligibility of recorded contributions. The CDA failure to properly document its files could result in recorded contributions being deemed ineligible, thus requiring the City to contribute additional services or cash to meet its share of program costs.

RECOMMENDATION

We recommend that the CDA review cash-equivalent contributions recorded to date, obtain supporting documentation as required and submit such data to HUD for review in order that an eligibility determination can be made. In the future, the CDA should be directed to support recorded contributions with adequate documentation, including time records signed by the employee designating the actual time performed on Model Cities activities, and any other documentation necessary to support such contributions claimed.

REPLY

(a) In respect to the documentation of the former Director's and his secretary's salary, the CDA is not in a position to furnish any other information regarding this in-kind contribution other than that the City of Newark did appropriate moneys to the former Director for the proper directing of the affairs of the CDA. Therefore, we must be guided by the intent of the City officials rather than the actual documentation involved.

(b) 1. The percentage of time allocation utilized by the CDA was taken from the percentage of time that was indicated in our first year's submission to HUD and so approved. Basically, employees listed on the time sheets, with the exception of the Planning Officer, devoted 100 percent of their time to Model Cities affairs.

2. On the question of charging an employee's sick time to Model Cities, a question arises here as to whether we should use, at this time, local city practices which was the case here or should we deviate and arrive at another method of determining whether such time should be counted as cash-equivalent contribution. We are of the opinion that since the City allows annual and sick leave to be accumulated on a monthly basis and entertains the practice of crediting this time to employees on an annual basis, we see no reason for deviating from this practice in accepting their method of recording such time.

(c) With respect to the State-sponsored program, Fund 87, in the amount of \$68,419.70, the HUD auditors took exception after further review of this question to the fact that the employees represented by this project were not CDA administrative personnel at the time of the review. The CDA position on this particular item is that all of these employees represented administrative costs from the beginning of the program up until the first revisions were approved by HUD in March 1971. These employees were taken off the administrative line and included in a project, "Community Organization and Urban Agents." Therefore, there should be no question in allowing the above amount as cash contribution towards the administrative costs.

Recommendations and improvements: The CDA will take necessary steps to ascertain that all future cash-equivalent contributions shall be fully documented and that time records signed by employees shall indicate the actual time performed on Model Cities activities.

AUDITORS' COMMENTS

In regard to the above replies, we offer the following additional comments:

1. Concerning (b-1), our tests of the time sheets in question disclosed that, in most cases, only 2 of 9 employees consistently spent 100 percent of their time on the Model Cities Program; occasionally, there would be 3 to 9 employees contributing 100 percent of their time. Therefore, we cannot agree with the contention of the CDA that basically these employees (except the Planning Officer) devoted 100 percent of their time to Model Cities affairs.

2. Concerning (c), our basic problem was that we were unable to readily check the documentation supporting the charges of \$68,419.70. Therefore, we

could not make a reasonable determination regarding their eligibility and propriety as Model Cities Program costs.

Finding 6: Need to improve contracting procedures

A. Consultants contracts for in-house projects

Our review disclosed that the CDA had not adequately documented its files with information to support the basis for the selection of consultants contracts. In this regard, the CDA awarded contracts to six consulting firms to provide studies and surveys in connection with the execution of its in-house projects as follows:

Contract	Service	Contract amount
Skidmore, Owens & Merrill.....	Land planning and street design.....	\$225,000
Richland & Lupo.....	Survey and topographical maps.....	6,475
Agenda 2000, Inc.....	Research housing investment and program design.....	118,000
Joseph Belluscio.....	Creative instructional development.....	22,500
A.B.T. Associates.....	Development management information system.....	29,373
B. Woody.....	Expansion of McCarter and Route 21 roadway study.....	5,020

The individual contract files relative to the above contracts do not indicate how many other prospective contractors, if any, were considered by the CDA, nor the basis for the selection of the contractor.

The CDA must comply with the local (City of Newark) contracting procedures which, in this instance, require that there must be at least three proposals for every consultant contract. Proper supporting details should include bids or proposals and basis for selection of contractors, and determination that selected contractor meets pertinent HUD and City requirements.

RECOMMENDATION

We recommend that the CDA be directed to carefully consider the contracting deficiencies disclosed by our review in an effort to establish more effective procedures in the negotiation and award of future third party consultant contracts.

B. Need to institute contracting procedures for third party contracts -

Our examination of equipment, printing and Neighborhood Council election costs charged to in-house projects disclosed that the CDA contracted with the firms listed below in amounts of more than \$2,500 without advertising for bids and without written contracts:

Date	Voucher No.	Firm	Purchase-service	Amount
June 4, 1971.....	6096	Browns Office Furniture.....	Steel furniture.....	\$4,661
May 13, 1971.....	5049	Brenner Deck & Office Supply.....	Complete office furniture.....	4,300
June 24, 1971.....	2144	Airon Studio Graphic Art Services.....	Model Cities 2d year plan - printing.....	7,379
June 30, 1971.....	2253	Airon Studio Graphic Art Services.....	1971 operating budget - printing.....	5,005
Nov. 12, 1970.....	11026	Honest Ballot Associates, Inc.....	Supervision of election for Model Cities Neighborhood Council.....	3,000

In addition, for purchases up to \$2,500 the CDA failed to record the firms contacted and the amounts quoted. The purchasing department of the CDA stated that different firms were contacted by phone and the lowest quotation usually received the order.

HUD Circular MC 3145.3 states that the CDA Director, in the preparation and execution of all Model Cities funded contracts, must make certain that administration procedures are established to comply with the appropriate State and local laws that affect municipal contracts within his city. Model Cities contracts should be prepared in the mode, style, and format set by appropriate local practice, and awarded in accordance with local contract award procedures. In this case, in accordance with the policy set forth by the City and the State statutes, all items which cost \$2,500 or more must be advertised for bids before a purchase can be made, and such contract will be executed with the lowest

bidder. For items under \$2,500, the City's policy provides that price quotation forms be sent to vendors and the lowest bidder awarded the contract.

RECOMMENDATION

We recommend that the CDA institute the necessary contracting procedures which will conform with HUD and City requirements. In this regard we believe that arrangements with any contractor should be in writing for the protection of the parties to the contract. Moreover, such mandatory procedures should preclude, in many cases, the possibility of involvement in claims and/or litigation with contractors and the related expenditure of time and expenses which are inherent in such involvements.

REPLY

A. Consultants' contracts for in-house projects

In the HUD audit six contracts were picked as exceptions in terms of non-conformance in respect to selection of these contracts. The CDA takes position as follows regarding these contracts:

1. *Skidmore, Owens & Merrill*: This contract was negotiated prior to the present CDA administration; therefore, there was nothing in the files to indicate under what conditions this contract was awarded.

2. *Richland & Lupo*: This contract was negotiated by CDA. Due to the technical nature of the job being required by CDA, Richland & Lupo was selected because of their unique technical expertise.

3. *Agenda 2000, Inc.*: This contract was negotiated prior to the present CDA administration and, in addition, this particular contract was approved by HUD Regional Philadelphia Office prior to going to contract with CDA. It was explained that before we could get our Housing Investment Project of release from HUD they had to approve the Agenda 2000, Inc., contract.

4. *Joseph Belluscio*: This contract was an instructional program designed to instruct Model Neighborhood Youth in the renovation of buildings. This was a unique contract in terms of finding the contractor who had both the instructional know-how, as well as the technical expertise in the field of renovation of buildings.

5. *A.B.T. Associates*: The selection of the A.B.T. Associates was based on the bid process. The list of additional consultants that were solicited will be furnished upon request.

6. *B. Woody*: B. Woody was not selected by CDA by bid process. Due to the fact that Miss Woody was a unique specialist in the area of transportation and design and there was no one else available at that particular time, she, therefore, was awarded the contract.

RECOMMENDATION AND IMPROVEMENT

A. In the future, the CDA will utilize the bid process in all consultant contracts prior to their award and thoroughly document the machinations of the process.

B. The CDA did not institute bid process with purchases of \$2,500 or more. The CDA will in the future strictly adhere to the City's pre-bid with respect to purchases from third parties. In many instances, the CDA will utilize the City's pre-arranged contracting as well as the City's bid procedures.

However, HUD must be aware of the problem involved, particularly the mandate that minority vendors must be utilized as much as possible. Under the present City procedures, this is almost an impossibility since many of the minority vendors will not be in a position to furnish the necessary bond and competitive prices that many of the more established firms are in a position to do.

Finding 7: Inadequate controls over travel costs

Our examination of travel costs for program administration and in-house OAs disclosed reimbursements which were not sufficiently documented with supporting data. We tested \$32,157 in travel costs and of this \$20,077 was not properly documented for one reason or another. Generally, vouchers did not contain documentation to support claims for reimbursement for lodging and transportation other than by car. Most vouchers lacked certain basic information such as the purpose of the trip, time of departure and arrival, and the mode of transportation.

Chapter 4 of HUD Handbook MCGR 3100.8 requires that program costs, including travel reimbursements, be fully documented in order to be deemed eligible as program costs.

The City of Newark does not have an officially adopted travel policy. However, it follows the practice of reimbursement for mileage at the rate of 10 cents a mile and reimbursement for actual subsistence expenses. Moreover, the most recent policy issuance of the CDA in this regard, dated July 1, 1971, stated that, among other things, travel expense vouchers shall be supported by receipts.

In the absence of sufficient documentation in support of these costs, we could not make a determination whether the travel was necessary for or related to the Model Cities program.

Included in the above travel costs were charges to program costs for a person other than an employee. These charges were paid on Voucher No. 2112, dated May 27, 1971, for the period May 14 to May 29, 1971, in the amount of \$309.88 and covered reimbursement for a conference held in Miami, Florida, attended by Dennis Cherot, Administrator's Assistant, and his wife. The hotel bill which supported the claim also included charges for beverages totaling \$15.85.

Chapter 4 of HUD Handbook MCGR 3100.8 provides criteria for determining eligible and ineligible costs. In this regard we do not consider travel expenses relative to an employee's wife as reasonable and eligible costs. The Handbook also provides that incidental costs such as beverages relating to entertainment are specifically ineligible for inclusion in program costs. Again, without sufficient documentation we could not determine the extent of eligible costs included in these charges.

Obviously, the CDA needs to strengthen its overall travel policy and practices. Moreover, especially in view of the large amount already expended in the travel category (\$76,103 or about 2.5 percent of total costs), the CDA needs to strengthen its reviews of travel charges, perhaps including reviews of all proposed travel as well. These reviews could serve to detect and prevent ineligible travel costs and to ensure that payments conform to contract provisions and are necessary for implementing the related Model Cities activities.

RECOMMENDATIONS

We recommend that the Regional Administrator and the appropriate HUD program officials:

1. Require the CDA to fully document all future travel in a manner that will permit a determination that the travel costs are eligible and necessary for the Model Cities Program, to review thoroughly all such claims when submitted, and to defer reimbursement payments until properly documented.
2. Require the CDA to establish appropriate controls over proposed future travel in order to avoid the possibility of ineligible and/or unnecessary and excessive travel costs being incurred.
3. Require the CDA to review the travel costs referred to in this finding (the auditors have furnished the CDA with the necessary detailed information) and any further documentation that can be obtained, and verify as specifically eligible for inclusion in program costs, or as ineligible and accordingly deduct therefrom.

REPLY

1. Improvements and corrections taken: The CDA has required all parties who travel to fully document all expenses for travel.

2. Authorization for travel must accompany all travel advances or reimbursements for travel. This authorization must be approved by either the CDA Director, Deputy Director, or in-house OA Director.

3. The CDA is presently conducting a review for further documentation on all travel costs enumerated by the HUD auditors. It must be understood, however, that the CDA review is only in relation to the documentation to substantiate the costs involved. However, we cannot, at this time, document the authorization, and CDA takes the position that the authorization to travel prior to the expenditure of funds were verbally given by the proper CDA official, although this authorization was not stated in writing.

Finding 8: Other costs not properly documented, questioned \$8,095

Our review of Program Administration Costs disclosed certain charges to Account 2500, Consumable Supplies, for a payment of \$7,095 to Ebony Manor

Caterers, Newark, New Jersey, for a general conference held on December 18 and 19, 1970, for the following:

Dec. 18, 1970: Assorted sandwiches, coffee, tea and soda-----	\$850
Dec. 19, 1970: Breakfast, coffee and danish for 600 people-----	500
Dec. 19, 1970: Lunch for 800 people-----	3, 000
Dec. 19, 1970: Reception ending conference for 300 people-----	750
Meeting rooms-----	850
Service charge-----	545
	<hr/> 7, 095

Insufficient documentation in support of these costs did not permit a determination that the costs were necessary for program administration and, more particularly, what possible relationship or eligibility existed for inclusion of such costs under the category, Consumable Supplies.

Our review of supplemental costs charged to the Model Schools project disclosed a payment dated April 26, 1971, for \$1,000 to Bamberger Department Stores. According to the voucher, this expenditure represented 100 gift certificates at \$10 each for the purpose of purchasing essential shoes and clothing. There was no billing available from the store to support this payment nor was there a listing of the recipients of the gift certificates.

The lack of adequate reviews of documents supporting disbursements as well as the less than prudent and economical use of funds can result in the incurrence of costs which may not be considered as eligible program costs. Accordingly, these excess costs, unless strictly controlled and limited, could impose additional financial burdens on the cities affected.

RECOMMENDATIONS

We recommend that the Regional Administrator and appropriate program officials make the necessary determinations regarding the eligibility of the costs cited in this finding and instruct the CDA to remove the ineligible items, if any, from program costs. We also feel it is important that the CDA be directed to strengthen its controls over documents supporting disbursements and to exercise a reasonable degree of economy over incidental costs such as meals and beverages provided at meetings and conferences.

REPLY

Although the HUD auditors in this particular recommendation are requesting the Regional Administrator to make a determination with respect to the \$7,095 expended for a conference, the CDA takes the following position: This money was expended upon the advent of the new administration taking over in Newark to acquaint the Model Neighborhood citizens of the Model Cities Program. This was a two-day conference at which time various speakers, including the HUD leadman, spoke to approximately 1,500 people over the two-day period. In addition, it was very difficult to maintain a signature log to control the above number of people. In order to attract such a vast number of people, food and entertainment were offered. However, it must be noted that the actual entertainment costs were not included in this bill as they were donated free. It was by such broad participation as indicated by this conference that the Model Cities Program had been able to make some measurable impact on the target area.

With respect to the \$1,000 expended for 100 gift certificates at \$10 each on April 26, 1971, the CDA takes the position that this was part of a contract with the Board of Education covering five Model Neighborhood Schools. This particular item appeared in a proposal and work-program submitted by the Camden Street School. As of the date of the HUD audit, the certificates had been purchased, but they had not been distributed to the recipients, with the exception of 11 certificates which had been issued, amounting to \$110. The remaining \$890 worth of certificates had been placed in the Howard Savings Bank, Springfield Avenue Office, Safe Deposit Box No. 384. As soon as these certificates are issued, receipts will be forwarded to the CDA as to who the recipients are.

AUDITORS' COMMENTS

It should be noted that prior to receiving the above reply (reply received on January 6, 1972), the HUD auditors had not been advised that 89 gift certificates were still unissued and were located in a safe deposit box. Inasmuch as our

field work had already been completed, we have not verified the above. Moreover, we recommend that the unissued certificates be redeemed for cash and appropriate deposit made in the CDA's general fund.

Funding 9: Accounting, administrative and internal control deficiencies

Our examination disclosed that the CDA's system of internal control, particularly relating to its accounting records and related supporting data, was not considered adequate to insure financial control of its assets and liabilities and to account for program costs. We also noted certain administrative deficiencies which depict a lack of internal control. Such deficiencies could preclude determination of the validity and reasonableness of program costs, create delays in the speedy and effective completion of our audit, and lead to an inefficient and uneconomical administration of the CDA.

Chapter 3 of HUD Handbook MCGR 3100.8 provides the characteristics necessary for an adequate system of internal control to safeguard its assets, check the adequacy and reliability of its accounting data, promote operating efficiency, and encourage adherence to prescribed management policies. Chapter 2 of this Handbook outlines the minimum accounting records required for recording transactions.

The following deficiencies are not to be considered all inclusive but are those disclosed as a result of our review. They are in addition to deficiencies of this nature which have already been commented on in detail in the preceding findings included in this report.

a. Need for periodic reconciliation of CDA's cash balance with the city's records

Our reconciliation of the CDA's cash balance at June 30, 1971, with the balance maintained on the City records disclosed the following difference:

Per CDA's records.....	\$93,740.84
Per City's records.....	32,944.03
Difference	60,796.81

The CDA subsequently reconciled this difference which was attributed to the delay by the City in reporting to the CDA the actual recording of receipts and disbursements, and the failure of the CDA to make adjustments for such items as duplicate payments or voided checks. The last reconciliation prior to June 30, 1971, occurred at least six months previously. Moreover, there is no evidence of further reconciliations having been made from June 30 through October 31, 1971.

Periodic reconciliation of cash between the City's and CDA's records is essential to good internal control and would serve as a useful tool in verifying the CDA's financial position.

RECOMMENDATION

We recommend that the CDA establish a method which would provide for the periodic reconciliation of the CDA's cash balance with the balance maintained on the City's records. This reconciliation should be done, as a minimum, on a monthly basis.

b. Nonexpendable equipment

Property records of nonexpendable equipment have not been established. Chapter 2 of HUD Handbook MCGR 3100.8 states that property records shall be maintained for nonexpendable equipment and reconciled to an annual physical inventory.

The failure to control nonexpendable equipment could result in equipment being misplaced or lost, and replacement equipment unnecessarily purchased to perform the function of the initial purchase.

RECOMMENDATION

We recommend that the CDA be instructed to establish property record cards, the aggregate total of which agrees with the subsidiary ledger control. Annually, a physical inventory should be taken and compared with the property record cards. Discrepancies should be fully investigated and comments retained for audit purposes along with evidence that a physical inventory was taken.

c. Payroll internal control weaknesses

Our review of payroll procedures disclosed internal control weaknesses in the CDA's processing and distribution of payroll.

There are two personnel department employees who are responsible for the payroll function. They record time, control the recording of terminations, and have control over the distribution of payroll checks. It was also noted that when checks are distributed to in-house project officials, these same officials also have control over the record of terminations, recording time and distribution of checks.

One of the hallmarks of good internal control is a procedure which provides for appropriate segregation of functional responsibilities. In this case, the persons preparing payroll or time reporting records should not handle the related paychecks.

RECOMMENDATION

We recommend that the CDA reassign the responsibility of distributing payroll checks to someone in a fiduciary capacity who is not involved in related payroll functions.

d. Evaluation payroll not allotted to program administration

Our review disclosed that payroll charges in connection with evaluation activities were charged solely to Supplemental Costs except for the salary of the past evaluation director which was charged to Program Administration. Since evaluation is an integral part of administering the program and of administering any capital project or activity, applicable salaries should be allocated in accordance with the evaluation performed, as defined in HUD Circular MC 3140.6 dated February 1970. Our review of CDA quarterly reports indicated that some evaluation reports had been prepared pertaining to the overall administration of the program. Salary allocations, in addition to the salary of the past director, should then have been made to Program Administration. From the CDA's records we were unable to readily identify the number and types of evaluations performed and therefore cannot determine the evaluation salaries which should have been allocated.

Inasmuch as Program Administration costs are shared with the City, it is important that evaluation salaries be allocated in accordance with the activity performed. Supplemental costs should be charged only for costs related to evaluation made of project activities and not for evaluations pertaining to overall program performance and effectiveness.

RECOMMENDATION

We recommend that the CDA be instructed to establish a basis for allocating evaluation salaries which conforms to the activities affected and allocate all such salaries accordingly.

e. Inadequate leave records

Our review of the CDA's leave records pertaining to both Program Administration and in-house projects disclosed the following deficiencies:

1. Numerous errors were made in the posting from the weekly time and attendance records to the employees' leave records.

2. Advances of sick leave were made when employees had annual leave balances; also, sick leave was used when there was insufficient annual leave.

3. There was no standard method for giving employees appropriate leave credit for their first month's employment. Some received annual leave and sick leave when employment started prior to the fifteenth day of the month; others did not.

RECOMMENDATION

We recommend that the CDA be instructed to review its current procedures in this regard and institute the necessary corrective measures in order to maintain its leave records currently and accurately.

f. Long distance telephone calls

The CDA procedures provide for a log to control long distance telephone calls. Our review of the log disclosed that it is incomplete and is not used in determining the propriety of telephone billings.

The following are several of the larger toll calls made in a three-month period for which the purpose of each call could not be determined:

Location called		Amount
Number of calls:		
3	Los Angeles, Calif.	\$32.85
3	Ansonia, Conn.	18.10
2	Chicago, Ill.	14.65
2	Baton Rouge, La.	10.70
2	Nashville, Tenn.	4.90
2	Palm Beach, Fla.	7.30
1	Boston, Mass.	9.82
Telegram	Guatemala	13.33
Total		112.65

Toll call billings should be reconciled with the log maintained prior to authorization for payment. This would enable the CDA to determine personal calls, if any, and charge the responsible employees.

RECOMMENDATION

We recommend that the CDA maintain its log of toll calls in such a manner that the propriety of toll call billings can be readily determined prior to authorization for payment and appropriate reimbursement can be obtained for personal calls.

g. Other deficiencies

1. The accounts payable general ledger control and the related subsidiary ledger were not in agreement at June 30, 1971.

2. The various general journal entries recorded by the CDA do not have sufficient accompanying explanations. Most of these entries are combined or netted for posting to the books thereby making it difficult to trace to supporting documentation.

RECOMMENDATION

We recommend that the CDA investigate thoroughly the existing discrepancies in its accounts payable, make the necessary adjustments to correct the present imbalance, and subsequently follow the normal procedure of reconciling the general ledger and subsidiary records at least monthly. In regard to journal entries, we recommend that the CDA provide explanations in support thereof in much greater detail, particularly in those cases where various transactions have been combined or netted and thus have lost their original identity.

Although the CDA assisted us in obtaining information, correspondence and available supporting documentation needed to complete our examination, the various deficiencies enumerated above in conjunction with those noted in the preceding findings necessitated the use of considerable audit time in excess of the amount which would normally be required.

We believe that prompt corrective action is necessary in connection with these deficiencies so that the timely and accurate maintenance of such books and records becomes a requisite of CDA policy.

We recognize that, because of comments and suggestions made during our audit, certain corrective measures may have already been implemented to alleviate certain deficiencies and others may be in process. We cannot at this time, however, evaluate the effectiveness of any changes made or proposed. Therefore, apart from the specific recommendations already included in this finding, we further recommend that the Regional Administrator directs his staff to monitor periodically the CDA's books and records based on reports submitted in order to determine that they are being properly and currently maintained.

REPLY

a. Need for periodic reconciliation of CDA's cash balance with the city's records

The CDA will establish a monthly reconciliation of cash balances with the City's records.

b. Nonexpendable equipment

The CDA has established property control records and a list of the physical inventory. However, the physical inventory had not been tied out with the Gen-

eral Ledger balance and the CDA will accomplish the HUD audit recommendation in this respect.

c. Payroll internal control weaknesses

Corrections: The CDA will undertake separation of duties of the persons mentioned in the auditors' finding and assign a portion of these duties to the CDA fiscal department.

d. Evaluation payroll not allocated to program administration

In respect to this finding, the auditors reviewed the quarterly reports that were prepared in the evaluation unit and wrongly assumed that the evaluation of projects and administration had taken place. The CDA did not conduct any evaluation of projects; therefore, this seemed to be a contradiction within the audit report. The CDA takes the position that during our first action year we did not evaluate any projects. However, we mentioned plans for evaluating projects and this was a function of the Evaluations Chief; therefore his duties were allocated as stated in the HUD finding. With the advent of the second year planning and in consultation with HUD representatives we will attempt to budget between project evaluation and administrative costs. Therefore, our records will indicate the split as indicated in the recommendation.

e. Inadequate leave records

The CDA will take all necessary steps to correct the recording of leave records.

f. Long-distance telephone calls

The CDA has taken all necessary steps to log and control long distance telephone calls. One of these corrections has been to install private telephones throughout the agency and only to those individuals who have to make long distance telephone calls. It has also provided locks for those telephones. In addition, the master telephone switchboard has been rewired to prevent anyone from calling out of the area code. In this way, the CDA will be in a better position to control long distance telephone calls.

g. Other deficiencies

1. The CDA fiscal department has taken the necessary steps to bring into balance the data processing subsidiary Accounts Payable Ledger in line with the General Ledger controls.

2. The CDA fiscal department has also instituted procedures of journalizing single transactions rather than composite entries.

AUDITORS' COMMENTS

In regard to the above reply to d, we suggest that this matter be reviewed further with Miss Sprain, the Acting Chief of the Evaluation Section.

Based on this reply, an adjustment should be made removing all evaluation charges from Supplemental Costs and accordingly charging these costs to Program Administration. In this manner, the City will then pick up its proper additional share of such costs for evaluation activities relative to the overall Model Cities Program.

Finding 10: Questionable aspects of CDA's pension plan

The CDA's pension plan has certain aspects which appear to be more liberal than local public practices.

Chapter 4 of HUD Handbook MCGR 3100.8 states that in order for administrative costs to be eligible, they shall not be more liberal than policies, procedures and practices applied uniformly to both Federally assisted and other activities of the City.

The CDA's pension plan, which was effective July 1, 1971, provides for employer contributions of 10 percent and employees contributions of 5 percent of gross salaries. For employees hired prior to July 1, 1971, the CDA paid on June 16, 1971, the entire cost of past service benefits. This payment was computed based on 10 percent of gross salaries from the date of employment to July 1, 1971, and amounted to \$45,376. In addition, the policy as written allows the employee, upon termination other than from retirement, to withdraw his contribution as well as the portion contributed by the employer, based on each surrender value of the employee's individual annuity policy contract. In essence an employee who terminates his employment with the CDA would receive an amount in excess of his contribution to the plan which would therefore be considered additional compensation over and above his budgeted salary. Our review of the

City's plan disclosed that City employees are not entitled to collect any share of the City's payment to their plan unless employment is terminated by retirement.

In reply to a CDA letter dated April 21, 1971, requesting approval of participation in this pension program for its administrative employees, HUD stated in its letter of May 10, 1971, that there was no objection to the proposal submitted provided such plan and cost are comparable to the City's policies, procedures and practices. The proposal letter which had been submitted by the City covered only those matters pertaining to employers' and employees' contributions, effective contribution dates, and past service benefits contributions; it did not cover all aspects of the plan and in particular did not refer to the provision relative to termination other than from retirement, as outlined in greater detail in this finding.

RECOMMENDATION

Inasmuch as certain aspects of this particular pension plan may be more liberal than local public practice and in view of the previously mentioned HUD letter restricting the provisions thereof to comparable City policies and practices, we recommend that the CDA submit its pension plan (accompanied by all pertinent details including statements of local public practice) to the appropriate HUD officials for further study and review and a final determination as to propriety and eligibility as part of Model Cities Program costs.

REPLY

The CDA takes the position that the HUD Regional Administrator must make a determination as to the liberalization of the pension plan, as well as to the acceptance by the HUD official. However, the CDA will make available upon request all necessary data to the proper HUD official in order to make this determination.

GENERAL COMMENTS

First year projects not fully implemented

During the first action year ended June 30, 1971, HUD had approved 28 supplementary funded projects with budgeted costs of \$4,206,000 and program administration costs of \$1,445,000, or approximately 34 percent of project costs.

At June 30, 1971, 15 months after the inception of the first action year, 7 supplementary funded projects had incurred no costs and 21 had incurred costs of \$1,511,707.06, or only about 36 percent of the first action year's budgeted amount. In addition, program administration costs amounted to \$1,573,082.05, or approximately 104 percent of project costs.

This disproportionate share of administration costs to project costs resulted primarily from the following.

1. Change in City Administration due to Mayoral election of November 1970. It took the new administration several months to evaluate the overall program to date and accordingly amend or revise current objectives, establish new goals, and begin full implementation of the operating projects.

2. Notwithstanding the above, the CDA obviously did not make adequate plans for the first action year. This is evidenced by the fact that the planning period ended May 12, 1969, but the first action year did not actually begin until March 17, 1970. Consequently, program administration costs for the first action year include certain administrative costs covering a period of 25 to 26 months.

3. The CDA had difficulty in locating operating agencies. Additional difficulty was encountered in starting these agencies because of the lack of trained personnel to administer the related projects and activities.

After five months of the second action year, the CDA has 26 supplementary funded projects currently active. These projects have accumulated supplemental costs through November 30, 1971, of approximately \$2,811,700, or about \$1,300,000 for this five-month period. Program administration costs for the same period approximated \$494,900. The related budgeted amounts for the second action year for supplemental and program administration costs are \$5,221,000 and \$1,328,000, respectively. Based on the above costs (unaudited) incurred since June 30, 1971, the various projects and activities show significant improvement over the first action year and, hopefully, appear to be making progress toward achieving the objectives set forth in the schedules planned and forecasted in the second action year budget and work programs. Similarly, program administration costs for the same period are presently within the limitations set forth in the second year budget.

PENDING LITIGATION

The CDA is involved in litigation (approximately \$19,813) with Agenda 2000 Incorporated of San Francisco, California. The claim arises out of a dispute as to the compensation owed the complainant for professional and technical services rendered in connection with the first year action plan.

The CDA was dissatisfied with the performance of the services by Agenda 2000 under the contract and terminated the contract for cause. Agenda 2000 submitted its final billing pursuant to Part II, Section II of the contract "Termination for Convenience of the City Demonstration Agency or the Contractor." The CDA terminated the contract pursuant to Part II, Section I "Termination of the Contract for Cause." In Part II, Section I of the contract, the CDA is liable to Agenda 2000 for the payment of "just and equitable compensation for work completed on" all finished or unfinished documents, data, studies and reports prepared by Agenda 2000 under the contract, which is a considerably lesser sum than is permitted by Part II, Section II of the contract.

The legal question to be resolved is whether Part II, Section I, or Part II, Section II of the contract, is to be used in deciding what amount should be the final payment. According to the CDA's attorney, under Part II, Section II, the CDA's liability would be approximately \$19,813; pursuant to Part II, Section I, the CDA's liability would approximately \$7,000 to \$9,000, if not less.

SCHEDULE 1.—CITY OF NEWARK COMMUNITY DEVELOPMENT ADMINISTRATION,
NEWARK, N.J.

Statement of program administration costs at June 30, 1971

<i>Classification</i>	<i>Amount</i>
Salaries and fringe benefits.....	\$1, 119, 403. 30
Consultant and contract services.....	71, 875. 00
Travel	35, 037. 25
Space	93, 403. 12
Consumable supplies.....	30, 090. 98
Equipment	85, 863. 19
Other costs.....	136, 808. 31
Total	1, 573, 082. 05

SCHEDULE 2.—CITY OF NEWARK

COMMUNITY DEVELOPMENT ADMINISTRATION,
NEWARK, N.J.

Statement of program costs by project at June 30, 1971

<i>Project title</i>	<i>Amount</i>
Design, land-use plan.....	\$247, 543. 42
Parks, trees improvement.....	90, 542. 16
MN stabilization building improvement.....	75, 096. 43
Housing investment.....	56, 968. 49
Health development team.....	30, 781. 29
Home care.....	2, 401. 70
Dental care.....	12, 202. 00
Non-emergency transportation.....	45, 815. 13
Urban agents.....	173, 001. 87
Public safety personnel.....	39, 428. 00
Police storefronts.....	18, 139. 43
Classroom innovation.....	29, 983. 80
Model schools.....	241, 870. 62
Community coordinator.....	5, 600. 53
School personnel training.....	21, 296. 62
Neighborhood Youth Corps.....	44, 604. 40
Task force T.A.....	58, 362. 27
Project evaluation.....	173, 815. 18
Transportation improvement.....	5, 105. 00
Housing Development Corporation.....	36, 794. 70
Youth services.....	102, 354. 00
Total	1, 511, 707. 06

SCHEDULE 3.—CITY OF NEWARK

COMMUNITY DEVELOPMENT ADMINISTRATION,
NEWARK, N.J.*Statement of final planning costs at June 30, 1971*

<i>Classification</i>	<i>Amount</i>
Salaries	\$219,597.08
Employee benefits.....	18,560.89
Consultant and contract services.....	2,113.02
Travel	1,936.85
Other costs:	
Space costs.....	11,072.38
Consumable supplies.....	5,026.78
Communications	4,169.08
Election costs.....	5,757.27
Board meeting costs.....	8,908.91
Miscellaneous equipment rental.....	1,142.64
Total other costs.....	30,977.06
Total planning costs.....	279,185.50

**STATEMENT OF CURTIS A. PRINS, CHIEF INVESTIGATOR OF THE
HOUSE BANKING AND CURRENCY COMMITTEE**

Mr. PRINS. Thank you, Mr. Chairman.

My name is Curtis A. Prins and I am the chief investigator, U.S. Congress, Banking and Currency Committee.

In early May, following the receipt of the report from the Model City program in Newark, the Housing and Urban Development Administration, knowing that the Banking and Currency Committee was dealing with housing legislation that would include continuation of funding for the Model Cities program, it was determined by the subcommittee to find out just how the Model Cities program in Newark and other housing programs were spending their money, particularly in light of the criticism directed at the program by HUD.

For instance, in the HUD report, in the summary of their findings—

Mr. STEPHENS. This is the audit, you mean?

Mr. PRINS. Yes, sir. They state that although costs of only \$203,978 were requested, the overall effect of weak and inadequate operating procedures result in the occurrence of substantial amounts of unnecessary cost and the continuations of programs which do not meet their intended goals.

With this statement in mind I came to Newark accompanied by two representatives of the General Accounting Office from the New York field office. We spent approximately 4 days here on the first visit and subsequently I returned later in the month of May with another auditor from GAO and we spent approximately 3 to 4 more days. We did not go into the field to any great extent since we were engulfed in a morass of paperwork at the headquarters. We attempted to go over as many vouchers and contracts as possible.

We did conduct one what I would call semifield investigation of one contract and that was to teach the children of the Model Cities area how to ride horses. We did spend some time with that. That was the only fieldwork that we did. The rest of the time was trying to justify

expenditures, why they were made and whether they were legitimate or not.

We found, as did HUD, that there were many, many thousands of dollars, a total of which I cannot give you, because of the vastness of the expenditures of items that can best be described as questionable expenditures. The people in the Model Cities program responsible for paying out these vouchers could not justify them. In many cases they had no knowledge of what they were for. And in many cases indicated, although they had tried to determine what the expenditures were for, were unable to.

One of the problems that was described to us by people in the Model Cities is that they basically had no one within the system to take a voucher, and let's say the voucher was for \$20 for transportation, to audit that voucher in house to determine whether it was a valid trip or whether it was someone spending it for purposes not related to the Model Cities program.

As I say, we found a great many of these which amounted to many, many thousands of dollars.

We also found a large number of expenditures which while not being in the clear-cut questionable category do raise doubts as to whether these funds are being put to the best use to benefit all of the people of the Model Cities program, particularly in the area of travel.

In the first action year alone of the program, by the agency's admission alone, they spent over \$33,000 in travel.

Mr. STEPHENS. Is this during the planning period?

Mr. PRINS. This would be the first action year of the program.

Mr. STEPHENS. After the first \$5 million plus—not the planning year?

Mr. PRINS. I would like to discuss one particular incident and this involves a conference with the Model Cities directors from around the country which was held in Washington, D.C., from April 18 through April 20. Fourteen representatives from the Newark Model City program, some who were on the payroll of the Model Cities and some who were elected representatives of the various Model Cities areas, attended this conference. We have documented that the expenses for this conference exceeded \$2,400.

Now, we feel that there is more than this. These represent only the expenditures that were charged; in other words, the hotel bills, which were charged to the various hotels in Washington, D.C., and also meals that were charged as well as long-distance phone calls. Out-of-pocket expenditures which were later reimbursed were not available to us at that time.

However, we do have documents that show that the expenditures exceeded \$2,400, for 14 people.

Mr. STEPHENS. Would that include transportation?

Mr. PRINS. That does include transportation. Most of the people came directly from Newark. There were several people who were attending other conferences, one in Detroit, I believe, who flew from Detroit to Washington. Some of these expenditures that we looked at with a rather more than casual interest were in a 2-day period, \$30 in long-distance phone calls. One gentleman flew from New York, Newark to Washington. His hotel bill indicated a \$10, I believe, charge for

the use of the garage when clearly he had flown to the city. There is no indication that he had rented a car.

It also shows, and we were not able to get an explanation of this because the gentleman involved was out of the country, that a Mr. Clarence Coggins attended this conference and on the night of April 18, Mr. Coggins registered in two different hotels. He registered at the Thomas Circle Inn and he also registered at the Mayflower Hotel. Both of these bills were paid by the Model Cities program without question and in fact they were not even aware of this until we raised the point, why would this gentleman need to have two hotel rooms on the same night? We were not able to get an answer from people, as I say, at Model Cities because they could not talk to Mr. Coggins since he was out of the country.

The other aspect of the vouchers that brought a great deal of curiosity to us were substantial amounts spent for alcoholic beverages. On three occasions the controller of the Model Cities program wrote to various officials in the Model Cities program questioning their expenditures for cigarettes, cigars, and alcoholic beverages which they had charged to the Model Cities program and which were paid by the Model Cities program.

In early May the controller wrote to these individuals demanding that they repay the Model Cities program for these expenditures. At that time the expenditures had not been repaid to the Model Cities program.

In one instance, Mr. Junius Williams incurred expenses—Mr. Williams, incidentally, is the director of the Model Cities program, of \$74 for cigarettes, cigars and alcoholic beverages, and also this was at the Dwyer Steak House, in which he incurred a bill of more than \$240. He also had additional unallowable expenses which were not explained in this. The total amount was more than \$156.

Mr. Coggins also incurred expenditures for cigarettes and alcoholic beverages of more than \$55 which were questioned by the controller's office. And Mr. Donald Tucker at Dwyer's Steak House, incurred expenditures of more than \$48 for cigarettes and alcoholic beverages. The controller's office did make demand, as I said, upon these people. At that time none of them had responded with their checks.

Forgive me if I ramble here because I have to go through a document to find out these things.

Mr. STEPHENS. What is that document?

Mr. PRINS. This is an interview that I conducted over a 6-hour period with an extremely high ranking official in the city government of Newark who I have no reason to doubt his veracity or that these statements are true. If the committee so desires, Mr. Chairman, I would be happy to make this gentleman's name public but I promised him at that time that I would not do so without the consent of the committee because the gentleman was so straightforward and did give me all of the information that I requested.

All of what I am about to say points to the fact that there are expenditures in the Model Cities program that clearly were not pre-approved by anyone in authority or any disinterested party who could ask objective questions as to whether these were necessary expenditures.

As I said, I have discussed the expenditures at Dwyer's Steak House. There are also other expenditures at a place called "The Roost" in which sizable liquor and tobacco bills were charged to the Model Cities program.

There was an expenditure of \$503.63 at the Gateway Downtowner Motel or Hotel, which is adjacent to the railroad station, which represented a meeting from November 16 through November 22, 1971, in which Mr. Williams took certain staff people down to the hotel for what he described as "a public relations retreat."

During this period there were \$48.60 charged for alcoholic beverages, and I do have the receipts for the type of alcoholic beverages but I don't want to take up the committee's time describing the brands and this type of thing, but we do have documented evidence that these were charged.

Mr. MINISH. Did I understand you correctly, Mr. Prins, that they went down to the Gateway Motel? Is that what you said?

Mr. PRINS. Yes, sir.

Mr. MINISH. And incurred this kind of expenditure and said it was a public relations retreat?

Mr. PRINS. Yes, sir.

Mr. MINISH. This is just about a half mile or a mile removed from their offices, I would think.

I don't know why it was necessary to go there rather than working in their offices.

Mr. PRINS. Well, Mr. Minish, I stayed at that motel during my investigation and I was able to walk from the Gateway Motel to the offices of the Model Cities program, and they are spread out in several areas, but I did go to virtually every office and I was able to walk to every one of them in less than 15 minutes. So I think your point is very valid although I am not thoroughly familiar with the layout of the city of Newark.

All of the people incidentally who went on this public relations retreat were employees of the Model Cities program or had some connection with the Model Cities program. All worked in the Newark area. In other words, there was no one brought in from the outside.

Once again that bill amounted to over \$500. They were in a room, they rented a room there from November 16th through November 22d. The additional expenditures were for food and alcoholic beverages.

One of the points that we requested was an expenditure for a trip to Miami, Fla., to attend a Model Cities type of affair, which was never fully described, but it was a meeting of some type of Model Cities directors or officials from around the country that was held in Miami.

The gentleman involved in this expenditure was a Dennis Cherot. This gentleman spent 3 days at the Fontainebleau Hotel and incurred expenditures of several hundred dollars. We were not able to at that time to get an exact accounting from the Model Cities office as to how much really was involved but we were informed that it was several hundred.

One of the things that drew our attention was the registration card for Mr. Cherot which was made out in the name of Mr. and Mrs. Dennis Cherot. We subsequently learned that Mr. Cherot is not married. He was asked by officials in Model Cities why he registered as Mr. and Mrs. Cherot and he said he was told by officials running the conference

that everyone else was registering that way and that he should go ahead and register in the same manner.

We also had occasion to look into expenditures of sums paid to the Ebony Manor Catering Service.

Now, if I could digress for just a moment. We were faced with volumes and volumes of vouchers and under the time frame that we had we could not go through and question each one. We picked out ones that for lack of a better word caught our attention or were substantial amounts.

The Ebony Manor bills appear on two occasions. Once in 1971 and once again on approximately January 12, 1972. The total cost of the first expenditure was buffet dinner for approximately 500 to 800 people that ran \$7,000.

We requested what the purpose of the buffet dinner was and we were told "the purposes were supposed to be a community conference to acquaint the community with the beneficial aspects of the Model Cities program and what it was supposed to do and how it was supposed to help the community. At the same time also to get some kind of feedback from the community as to what their needs were."

Mr. MINISH. Are you talking about a second dinner?

Mr. PRINS. This is the first dinner, Congressman.

Mr. MINISH. This is the first dinner. I have a copy of the HUD audit here where they had listed that as consumable supplies, which HUD, of course, discovered and did not authorize the payment. Are you suggesting that there was another dinner after this?

Mr. PRINS. There was another engagement, Congressman, which I will get to in a minute. It was a luncheon, I believe, but it was not of the \$7,000 magnitude.

Mr. MINISH. I just want to quote from the audit that was sent to us by HUD a couple of weeks ago wherein they say, on page 26:

Insufficient documentation in support of these costs did not permit a determination that the costs were necessary for the program administration and more particularly what possible relationship or eligibility existed for inclusion of such cost under the category of consumable supplies.

Mr. PRINS. Well, Mr. Minish, I don't know what consumable supplies are. I think food would fall into that category but I could not give you a judgment on that.

There is also a possibility, which we have not been able to check, that a third dinner was held at Ebony Manor in which expenditures of \$7,059 were incurred. However, the accounting system is in such a state of confusion, the payments are done in one building, the documents prepared in another and there is a constant transition of papers back and forth.

The people in the accounting office could not assure us that these were not two separate dinners although the figures of the bills delivered—one was for the amount of \$7,000, one was for the amount of \$7,059—would indicate a total of \$14,059. We were not able to document that these were two different dinners.

But there was a third, and this was held sometime during 1972, in which there were 75 people and the bill was roughly \$750.

Mr. STEPHENS. Congressman Widnall, we are glad to have you.

Proceed.

Mr. PRINS. At this point I requested the individual as to exactly what he thought were the total expenditures of CDA funds with Ebony Manor and he indicated to me that there were three affairs and that the total amount was close to \$16,000. As I say, we have not been able to substantiate it but the person who gave me this information would be someone who would have access to that information and I have no doubt, I have no question that he was providing me with accurate information.

There is also the question of a printing press which in my years with the committee is one of the strangest transactions that I have come across. This was a press to be purchased by the Community Development Administration for use in whatever printing needs they would have. We were informed that there is a city rule that requires that any bid exceeding \$2,500 or any purchase exceeding \$2,500 be put out for bids.

The controller's office at CDA began receiving bills for component parts of a printing press. Now, we asked these people if it was the normal process to buy a printing press in component parts and we were informed no, it is not, you buy a whole printing press or you don't buy anything, but you don't buy a platen and then an engine and so on down the line.

We asked why would someone attempt to purchase a printing press in this manner and the person stated that the only reason he could think of, that this would be a way to get around the bidding process. The printing press, the purchase orders were made payable to New Jersey Office Supply Co. The total price of the press was \$10,000. When the final purchase order came through, which totaled \$2,000, someone in the controller's office decided that they ought to determine whether in fact all of the component parts had been delivered and whether the printing press had been put together and was assembled. They found that none of the parts had been delivered and subsequently they went back to, although the earlier vouchers of roughly \$7,500 had been paid, no parts had been delivered. They went back to the company and the company refunded the money and the transaction was canceled.

Mr. STEPHENS. That is the payments were made already, made in increments of less than \$2,500?

Mr. PRINS. Yes, sir.

Mr. STEPHENS. But nothing had been delivered?

Mr. PRINS. No, sir: they were made to the office supply company but no parts had been delivered.

This transaction was initiated by Mr. Coggins.

We also learned that Mr. Coggins had submitted purchase orders for four automobiles the price of which was, to the best of our information, \$2,459 per car.

I point up again for the committee's benefit the requirement of the city of Newark that any expenditure over \$2,500 requires a bid procedure.

Mr. STEPHENS. Were these new cars?

Mr. PRINS. No, sir. There were three cars. These were used cars and they were quite well known to the people in the controller's office at the Model Cities program because they were described as lemons and they were constantly receiving repair bills on these vehicles.

The controller's office was not notified in advance that these cars were being purchased, they were suddenly presented with bills and told to pay them.

The controller's office, the person responsible for paying the bills, has never seen the vehicles and I asked him how do you know that they exist and he said we know that they exist because city license plates have been issued for them and were getting bills virtually every week for the repair of these vehicles.

Incidentally, the city of Newark does have a purchase program for fleet automobiles in which they get a discount from dealers, as does any other normal city in buying cars.

In addition, there is parking space paid for these vehicles by the city of Newark.

According to the Model Cities controller's office the cars are subject to repair every week.

In addition, there are vehicles that are assigned to key personnel, top level staff people in the Model Cities program, and one of these was assigned to the director, Mr. Williams. These were Chevrolet automobiles, the type of which are unknown.

According to the information that we received, Mr. Williams was not happy with his automobile and on his own went to an organization and leased the Oldsmobile that runs in the neighborhood of approximately \$130 to \$150 per month. At that time the gentleman did not have his records with him and was not certain of the lease plan.

This lease agreement was not approved prior to the leasing of the vehicle by anyone in the controller's office. Once again, they said the first thing they knew about it is when they got the bill for the leased Oldsmobile.

We were also informed that Mr. Williams has a young man on his staff who draws in the neighborhood of \$6,500 a year whose function it is to serve as his chauffeur to drive the leased vehicle.

It was later determined that lawyers for the city asked the controller's office whether such a purchase was in effect legal under Model Cities regulations and he informed them that he did not feel that they were but at that time, to his knowledge, the vehicle was still under lease to the Model Cities program.

At this time, Mr. Chairman, I would like to spend about 5 minutes—I have hundreds of questionable vouchers that I could cite here and go over with you but I think you pretty much see what I am trying to say and I don't think it is necessary to go chapter and verse into each one.

Apparently at one point the money wasn't being spent fast enough and Mr. Williams wrote a letter to the controller in which he said, this is dated September 8, 1971—as of this date of a total city appropriations of \$58,120, the expenditures have amounted to only 2.8, or \$1,597.24. Then he went on to say since there are only 4 months remaining in the budget year, all efforts should be made to spend the major portion of the remaining money as indicated below.

Included in this were \$4,500 for meals and officials entertainment and various other types of expenditures.

We have documents that show that when the controller's office attempted to question some of the payments to people and to contractors that they receive memos from higher ups in the CDA telling them that

they wanted the payments made again and that the delays in the payments "must never happen again."

This was the complaint of the controller's office, that they were under virtually a time gun to make these payments and they had no method nor staff to question these payments and when they did question the payments they were told basically that it was none of their business, that their job was to merely write the checks.

Mr. STEPHENS. This is the controller's office of the Model Cities?

Mr. PRINS. Yes, sir.

I would like to spend 5 minutes or less on the one contract that we had gone into with some degree of depth and then close with perhaps what I think is the most important quote that I could present to the committee and then I would be glad to answer any of your questions.

We came across a contract to the Wright Way Riding Stable. The contract was for \$3,500. The address for the payment was in care of the urban coalition here in Newark and not the riding stable itself. The contract was apparently brought about by Miss June Boxley who works with the park and shade tree division of the parks department of the city of Newark.

The contract was to teach 100 Model Cities children all about horses, and I will read to you exactly what the contract itself says: "The contractor is to teach a total of 100 children the equestrian arts such as presentation of western and English instruction in mounting, instruction in the difference between western and English riding, maneuvering and the safe handling of the horse, and dismounting. The contractor shall give instructions as to the different types of horses, for example, the walking horse, racehorse, stag, palomino, pony, and pinto."

I might say that this came to my attention since I know a little bit about horses. When I saw how the contract was written, I decided maybe we ought to check into this to determine if this was a bona fide contract.

Incidentally we also felt that the expenditures of \$3,500 to teach 100 children how to ride was quite a bit above the going rate, particularly if these were to be group lessons.

I called the individuals who are responsible for the contract, asked if they could provide us with the names of the children who participated, and no one seemed to have a list of who did participate.

The contract was also written three times and there is a memo to the contract that states to Mr. Fleming Jones, who was the controller of Model Cities, from Miss Boxley, "You also might note that this particular contract is veiled by much confusion and as of yesterday I learned that there is a third writing of the original contract." And she goes on to say she has not received all of the copies of the contract.

We visited the stables, Mr. Chairman, which are located virtually in the heart of the city of Newark in a converted garage. There were approximately 12 horses in extremely poor condition in the stables. They were standing on bare concrete floors with several inches of manure in each stall. There was no water available for the horses in these stalls. There was no adequate exercise area. There were three subteenagers left in care of the horses. The stable manager was not there. I did talk to him on the phone. There were two bales of hay for all of these horses and there was approximately 150 to 200 pounds of feed for 12 horses,

which in my experience for 12 horses would probably last no more than 2 days.

The horses, as I said, were in extremely poor condition. I looked at the tack that these children who were supposed to have ridden the horse would have been using and it was in an even worse condition and much of it was so dry as to be of a completely unsatisfactory nature for any untrained child to use for fear that it would break and seriously injure some of these children.

We asked where the instruction was given since the only open area was a chain link fence between two heavily traveled roads that was on an extremely steep hill and they said that some of the instruction was given on the side of this hill and that some of the horses were put in a van and taken to a nearby park for some instruction.

We were unable to secure a list of any of the participants in this program and subsequently we learned that near the latter stages of the contract that the horses were put in the vans and taken to various areas of the Model Cities development and in effect the horses were used for pony rides really to entertain the children rather than to teach them.

One of the goals of this program was to find children who could go on to become race riders, show ring riders and rodeo performers, and that is stated in the contract.

This has nothing to do really with the Model Cities program directly but as an animal lover and person who is vitally interested with horses I can only say that I was horrified by the conditions that I found in that stable and I can only wonder why a contract would be let to such an operation and why children would be put on such equipment which could injure them? In closing, let me say that after spending over 6 hours in a discussion with a very high ranking official in the Model Cities program I asked him this question: "Do you feel that the people of the Model Cities in Newark are getting the full benefit for the funds that are provided by the Federal Government for the Model Cities?" and he answered, "No, I do not. I do not. I do not feel that the citizens of Newark are getting really the full benefit that they could derive from the exodus of funds that have, for the amount of funds that have come into the city, no."

My next question: "Do you feel that too much of the funds are spent in administrative expenses?"

Answer: "Yes, administrative expenses directly and indirectly because we have quite a few projects that are funded by HUD 100 percent, and when you really look at these projects they are really doing administrative work."

That concludes my presentation and forgive me if I have taken up too much time of the subcommittee, Mr. Chairman. I would be glad to answer any question at this time.

Mr. STEPHENS. Mr. Minish, would you like to start?

Mr. MINISH. Yes.

Mr. PRINS, do you feel that in view of the investigation, or looking into the vouchers that you were able to look into, do you feel that further investigation should continue?

Mr. PRINS. Mr. Minish, I would say that, and I want to be very strong on this point, that there should not be another dime spent in the Model Cities program in Newark until a complete audit is done by an

agency such as the General Accounting Office. And I might add also further, this should be an on-going audit. In other words, not just do it now and then, go back to the old ways. There also, Mr. Minish, has to be an internal type of audit so that someone who is not directly controlled by the program can look at these vouchers and say we are not going to pay a \$60 bill for liquor.

Mr. MINISH. That is all.

Mr. STEPHENS. Mr. Widnall?

Mr. WIDNALL. I don't have any questions. I got in here late, as you know. I will review the testimony.

Mr. STEPHENS. I don't believe I have any questions. I think you have covered some very important items that need to be pursued further. Thank you very much.

Mr. PRINS. Thank you, Mr. Chairman and Mr. Widnall and Mr. Minish.

Mr. STEPHENS. That was well organized and very well done. Before we proceed, I would like to recognize Mr. Merle Baumgart of the staff of Congressman Peter Rodino. We are glad to have you here and to know that Mr. Rodino is vitally interested in the subject matter that we are discussing and we appreciate your attending with us.

Mr. BAUMGART. Thank you, Mr. Chairman.

Mr. STEPHENS. The next person that we have scheduled for a few minutes is Mr. Saul Wolfe, who is tax assessor of the city of Newark.

Mr. Wolfe, we will be delighted to have you give us the benefit of your testimony. I understand that your testimony will be concerned with the section 235 and 236 programs.

STATEMENT OF SAUL WOLFE, TAX ASSESSOR, CITY OF NEWARK, N.J.

Mr. WOLFE. Thank you, Congressman. I am the tax assessor of the city of Newark, N.J., and I appear here today after meeting with, and at the invitation of, your staff.

We recognize certainly the needs for housing in the city of Newark and recognize the salutary objectives of these programs that Congress has designed. We find, however, that in the functioning of the programs, as your committee has been active in investigating throughout the country, there have been abuses that have crept into the program and I think your previous reports have already documented many of those abuses and I don't need to recount them in detail with chapter and verse as they have occurred in the city of Newark. But it is certainly recognized that in the city of Newark today, property has two values. One, its conventional market value in a conventional transaction and another and higher value in these FHA mortgage insured transactions. We find that our traditional definition of market value, the willing buyer and the willing seller, both equally informed, breaks down in the 235 program. We don't really have an informed purchaser.

We find from our experience in conjunction with assessors in other urban areas in Essex County, in many instances the persons who have obtained title to the property have no idea what the purchase price of the property was. Many of them know what their monthly payment is but they don't know the total amount of their mortgage.

It hardly meets the criteria on the willing buyer, willing seller and results in a distortion. Distortion is built in, as you have already learned, with the payment by the seller of high points to procure the mortgage, paying the buyer's closing costs, because the indigent buyer in fact doesn't have the wherewithal to come to a closing and pay for search fees, title insurance, and what have you.

The effect of this is generally loaded into an inflated sales price and the seller does not ultimately receive the consideration indicated in the contract but some substantially lesser amount.

Now, the effect on the city of Newark of this is a broader one than merely the unfortunate effect on the individuals who are trying to help with these programs who are paying more than they should to obtain the housing that is the purpose of this program. Because under our system in the State of New Jersey the cost of county government is paid by the municipalities and it is prorated according to the valuation of real estate in the respective municipalities within the county.

Now, in Newark today we are paying \$24 million a year toward the cost of our county government.

Mr. STEPHENS. You mean the county does not assess a separate ad valorem tax?

Mr. WOLFE. That is right. Under our structure we don't have county assessing and county rate. What we have essentially is the county determines its budget, it determines the valuation of all municipalities within the county and then it allocates that amount which must be raised by each of the municipalities. The municipalities include it with its local property tax rate and remits that amount to the county government.

Now, in this process these sales at inflated prices have been treated as representing market value in Newark. The effect of that when that sampling is used to show the total picture in Newark is to charge all of the other citizens of Newark an additional proportionate share of the cost of county government.

I do not have to again demonstrate chapter and verse. You have seen in other municipalities the pictures of these houses, the conditions that they were in, and certainly we know that these sales do not represent fair market value. Nevertheless, for county tax purposes, Newark is being charged on the basis of these sales.

I have challenged these transactions before the county board of taxation, before the division of tax appeals, and we have obtained the precedent making decision from Judge Stanziale of the division of tax appeals on an appeal where she finally concluded and I am sure we all know no fairminded person could conclude these sales represented fair market value. Nevertheless, at the present time Newark continues to be charged for this. The cases have been appealed by the county board of taxation, by the director of the division of taxation, who also insists that these sales are fair market value because somebody is paying that consideration and, therefore, Newark goes on meeting this.

As I said to you earlier, \$24 million a year goes from the city of Newark to the county government. The only way I can indicate the significance of that is to contrast it with our total expenditure for police and fire protection in this urban area of only a little more than

\$8 million, so you have some idea of the magnitude and the significance of our contribution to county government.

How does that relate to the functions of your committee? It relates in this respect. At the present time the other citizens of Newark are picking up an increased cost of county government because we are not assessing these homes that are the subject of these transactions at those sale prices because we don't believe they represent fair market value. The officials that supervise this entire procedure have and still insist that it is fair market value.

The ultimate outcome of this may well have to assess these properties at their selling prices.

Now, you already know of the high rate of foreclosures that have occurred on these properties throughout the country. I daresay Newark is no different in that regard. We have a high foreclosure rate here too, from the information that has been furnished to me by the Federal agencies. Were we to ~~assess~~ these properties at anything like their selling prices, which would inevitably be the outcome of this type of situation, the effect would be to drive all of the rest of them into foreclosure. If their tax burdens were to double or more than double this, as would be the case in many instances as we are going into a citywide reevaluation program, the effect would be disastrous and frustrating in everything that you are trying to accomplish.

How, in short, do we deal with the problem, and obviously the answer is not to kill the program that is designed to provide a desperate need in the community but should build in the safeguards, and we urge you to build in the safeguards to assure that these much needed housing facilities will continue to be available at their fair market values which indeed are what the ultimate purchaser should be paying and not these inflated prices, and then we will truly have solved this problem. We will not see dollars coming into Newark ostensibly in aid and going out the back door through the unwarranted contribution to the cost of county government.

I appreciate your attention and I am available if you have any questions.

Mr. STEPHENS. I would like to ask you this.

We have been considering in our committee the question of settlement costs and closing costs. Among the items that have been proposed is one which would require that the purchaser of a dwelling be given a uniform closing cost statement in which would be spelled out the cost of the premise, what the interest rate would be, and whatever the truth in lending requirements would be. In addition to that, we have proposed that the prospective buyer be given a pamphlet made out by HUD that would warn him as to what they should look for with respect to their purchase of the premise. Also they would be given the settlement or closing cost statement as accurately as possible 10 days prior to the closing of the transaction. That would include all information on the uniform closing statement.

Do you think that more enlightenment as specified there would be of benefit in arriving at the proper values?

Mr. WOLFE. I don't know that enlightenment in and of itself will be sufficient. I don't think that many of these purchasers have typical bargaining power for arms length bargaining and that in those circumstances, even assuming they were capable of comprehending the

complexities of the transaction, which may be a problem, that information alone would be sufficient.

It seems to me that the problem is at the very outset in the determination of what the value of that property is at the time that the mortgage is approved.

Mr. STEPHENS. Now, one other item that is proposed that might bear upon this even more than just that information, is that we would require in the uniform closing statement a revelation of the purchase price of the property for the prior, I believe it is a 3-year period, some period of time beforehand. The purpose for that is this. We have had people complain about unscrupulous speculators who were purchasing a piece of property at \$3,000, we will say in October, and in November doing a cosmetic, so to speak, job of paint and then get some unscrupulous inspector to come along and evaluate the property for sale at \$13,000.

Now, that is, I am sure, where you are concerned, with that difference between the two, where it is really not worth \$13,000.

Mr. WOLFE. That is correct. As a tax assessor I am not concerned with the speculator per se buying it cheap, what I am concerned with is the ultimate purchaser buying dear.

Mr. STEPHENS. That would help arrive at some proper evaluation. The person in the first place ought not to buy at \$13,000 where there has only been done \$500 worth of repairs. But would a revelation of the prior purchase price be of any assistance to the tax assessors in arriving at a fair evaluation?

Mr. WOLFE. We do check these transactions. That is how we learned of these double sales that have occurred in the city of Newark. I think that every bit of information that you can give a prospective purchaser certainly is a step in the right direction. However, my experience is that there are a great many people who are sold properties in the city of Newark, not only on the basis of what the cost of that property is, they are sold like encyclopedia door-to-door salesmen sell them, the payments are so much a month, and there isn't a concern for the ultimate total price. The fact of the matter is that they advertise: Why pay rent, if you are paying \$150 rent, for \$150 a month 30 years from now you can own your own home, and very little concern and awareness of the significance of the ultimate dollar amount.

Mr. STEPHENS. That kind of advertising, I believe, was supposed to have been covered by our truth-in-lending program.

Mr. WOLFE. There is no doubt, sir, that what you say is absolutely true. I think the truth-in-lending laws are absurd. In closing FHA transactions, the purchaser signs a statement that he knows what the amount of the interest is and indeed he gets the annual percentage rate, but what I am suggesting to you is that he has been paying rent all along and he has nothing to show for it, and now he is told that 30 years from now you are going to have something and it is not going to cost you any more money, and so the ultimate dollar amount that he is paying—

Mr. STEPHENS. It is of no concern; is not of great concern.

Mr. WOLFE. It seems to me the protection has to be built in not at the level of informing the purchaser, although everything you do in that direction is a good step. I am all for it, and I think the practice has developed in New Jersey today to a large degree that attorneys do

furnish copies of almost all of the documents to the purchasers and have the purchasers sign that they have acknowledged return of them. There are steps toward obtaining information. But the question is that is the purchaser capable, given all of the information, of making the determination, or should not the agency that is insuring the mortgage take the ultimate responsibility for protecting that purchaser from his own lack of knowledge of the subject matter by seeing to it that mortgages far in excess of the value of the property are not authorized, and it seems it is that level that the most significant steps could be taken.

Mr. STEPHENS. We have often been confronted with an analogous thing. People come and say to me that they would like to see the Federal salary schedules changed, and they say that my take-home pay is a number of dollars. They are not concerned at all by anything else. They are getting social security out of it, and the taxes are being paid out of their salary and everything else. All they are interested in is what the take-home pay is. And that is what you are talking about.

I asked in a hearing that we had, the former Senator from Illinois, what people looked for in respect to housing when they went to buy a house, and he said, well, he thought that maybe the amount of interest that was being paid was about 14th or 15th in line, the amount. The first thing he said they look for is if the wife liked the kitchen, then they went on.

Mr. WOLFE. That is probably true.

Mr. STEPHENS. These details of what they are paying for the house and the ultimate price are minor things. If they like the kitchen, like the neighborhood, like the house, and can pay \$100 a month, then that is all they are interested in.

Mr. WOLFE. Indeed, I think you are absolutely right, and I think in the core areas of our city, the problem is even greater than that. That is not a shopper who surveys six or 12 counties of New Jersey and decide where he locates; this is someone who is in Newark, who goes to a particular broker and is shown a choice of two or three houses that they can afford at this monthly rental. They are not even in the league of having the opportunity to consider that wide range of possibilities that the Senator from Illinois may have considered.

Mr. STEPHENS. Mr. Widnall.

Mr. WIDNALL. Thank you, Mr. Chairman.

Wouldn't you say that in the case of many of the 235 homes where they are purchasing, the owners are simply buying shelter rather than homes?

Mr. WOLFE. I assume that is a matter of definition. I assume you are saying it does not have amenities you and I would expect in a home. In many instances I think that is true. I think that you would not regard some of the properties that have been sold as being capable of being converted into that extra special quality you and I might regard as home.

Mr. WIDNALL. Sometimes they sign up for what is a bad deal because they are desperate for a place to live. This is quite apparent as we have traveled around and gone various places.

We had many instances in Paterson of inflated values which were brought out. We have been able to do something to those who were gouging the ones who took over the bad premises. We discovered work was contracted for but not performed, and people paid for this even

though no one performed the work. I don't know whether that has been happening here in Newark, but certainly we would want to know and want to follow up on it.

Would you endorse a program of reducing property and personal taxes through Federal action?

Mr. WOLFE. Well, I suppose that we are all in favor of reducing property taxes here in Newark because they are so high, but I couldn't possibly endorse it if I didn't know what the proposed Federal action was. Certainly I would be in favor of reducing the property tax.

Mr. WIDNALL. Right now in New Jersey, in particular, there is a great hardship on the property owner, the resident owner, because of the fact he has been assessed to carry the educational load throughout the State. I know this is happening not only in Newark but in other places, and it is becoming extremely burdensome, and something has to be done about it in order to relieve that burden.

Mr. WOLFE. You are absolutely right. As you know, Mayor Gibson and many of the people in the State of New Jersey endorsed a proposal for income tax because it was widely recognized—that is, a State income tax—because in New Jersey today, the property tax burden is crushing, the burden is onerous, and that the total cost of government should not be—the disproportionate share of government should not be placed on property taxes as it is in New Jersey. The study indicates it is a much higher proportion of the cost of government than prevails throughout the country.

Mr. WIDNALL. Since it seems fairly apparent that in Newark as well as many other places it doesn't seem that the intended recipients of aid have received the aid so much as profiteers who connect themselves with the programs. Do you have a suggestion for restructuring assessments in other tax forms?

Mr. WOLFE. Well, I don't know that the restructuring of real property assessments per se would accomplish the solution to the problems we have discussed here today.

I have always been in favor of recognizing in New Jersey for property tax purposes, a distinction between the homeowner and the commercial and industrial user either through a homestead exemption or through clarification or something else that would recognize the fundamental disparity, but I think that is really a stopgap measure. I am in favor of it; I would like to see it happen.

I don't have a proposal for Federal legislation that would deal with our local problem. I do think, however, that in the Federal area, in this area, that the abuses would be excessive authorization, without the funding, either the properties wouldn't be sold or they would be sold at a value that was more realistic. In other words, if the source of the funds said, yes, you can buy this house and we will insure the mortgage even though obviously the purchaser has no credit but we are doing this because it is a social philosophy, we want to do it, but we won't let you sell this house for more than \$15,000, which is its fair value, rather than \$23,000, which it has been selling for heretofore, you would be accomplishing all of the objectives you are trying to accomplish. You would be providing the ability for these people to obtain the homes but you would be eliminating this unwarranted excess that has been built into the system, is not going to the seller of the property and is not redounding to the benefit of the buyer.

Mr. STEPHENS. One of the problems we have run into in respect to this evaluation of the house, is the appreciation of land values. The builder comes in and says that the land value has gone up to such an extent that to put on a reasonable size lot the kind of home that you could sell for \$21,000 and \$24,000, he said you can't put a \$21,000 home on a lot that costs \$3,500. The appreciation of the land values is where the homebuilder comes in and says that is the problem. And then, of course, we meet with the timber people and they are concerned about the price of timber and the scarcity of it and need for cutting further on the reservations that we have, more reasonable cutting. They allege if we change the rate on the wage and hour laws that affect every wage earner that it is going to be hard, they say, that even though the house now that we have designed and said was a \$21,000 home, they said you can't build a \$21,000 home now for what you could have 5 years ago or 3 years ago when we set the same evaluation. That is what we are faced with in trying to set values. Part of the problem that I have discovered as far as foreclosures are concerned is the fact they are looking for a human body to put in the house and haven't any concern about their ability to pay.

Mr. WOLFE. I think it's certainly true that the program——

Mr. STEPHENS. But there are some people who are never going to be able to own their own home and you can't put them in and expect not to have foreclosures.

Mr. WOLFE. I think some of these programs were designed to put people into a home that they couldn't afford to pay for, that it was geared to accomplish welfare people welfare subsidies, their monthly payment. That is a matter of social philosophy which I don't personally question. I think it is a salutary step. The problem is that you have to have the followthrough. If people are going to go into a property and they are operating on a very tight budget and they have been told that they can meet these monthly payments but they haven't been told that they may have a boiler breakdown, if they are operating on that shoestring and the first major repair comes along they start the parade of never-ending debt which ultimately results in the foreclosure and frequently in the inner city the vandalism of the property makes the end of the ball game.

Mr. STEPHENS. The margin is too close, in other words, for the person in many instances to be expected to carry it on, really even to build up an equity.

Mr. WOLFE. I am afraid so.

Mr. MINISH. Mr. Wolfe, thank you very much for coming and giving us the benefit of your views on such short notice.

As you said during your recent remarks, 235 is a good program, and I agree with that as one of the sponsors of it, but there have been many abuses in it and at this point I suppose it is fair to say that the Star-Ledger in its articles on abuses under 235 and FHA did a great service to the public. The articles were brought to the attention of Secretary Romney by me at a committee hearing, and I think it has resulted in a tightening up of the program.

The thing that shocks me is that some of the sales that were made in Newark were on the same day. In the morning a real estate speculator purchased a house, I think for something like \$7,500 and that same day turned it round in a sale of \$17,500.

I don't know how close I am but I assure you I am within a couple hundred dollars. These are the things that have given the program a bad name. In many areas we found that the housing that was considered decent housing was no more than a shelter, as was expressed by my colleague Mr. Widnall here. I know in some areas of the country they found that the commode on the second floor just went into the basement. I don't know whether we have this condition here. I hope we have an adequate inspection system. Whether it is followed or not is something else. I am not familiar with it. But I assure you the members that are here and myself are very concerned. The program itself has done a lot of good and it is unfortunate we have these real estate people who don't have at heart, No. 1, their profession and its best interests and No. 2 the people that we are trying to serve.

As Congressman Bob Stephens has said, we would like to see everyone possible own their own home and certainly I agree with that, as I am sure Mr. Widnall does.

In your position as the tax assessor, what would this home, if you have the information, you may not have it—that was purchased for \$7,500 in the morning and then was resold within hours—am I right on that—the same day, according to the article, for \$17,500, what would that be assessed at?

Mr. WOLFE. I don't know the particular property. And this is the whole problem. The properties were assessed. Now, the sales, very frequently when we studied those sales, those multiple sales, when we instituted the litigation we found in many instances the initial sale to the speculator, if you want to call them, the entrepreneur, the middleman.

Mr. MINISH. That is a better word.

Mr. WOLFE. The individual seemed to buy very frequently at or near the assessment. There were more flagrant cases where they purchased far below the assessment. We know when an estate is liquidating and they want to get rid of a property they sell it cheaper and we found administrator's sales where the property sold for half the assessment and then subsequently sold for high value and it made the transaction seem even more outrageous. Well, that was a situation where it appeared more outrageous not only because of the inflated selling price but because in those circumstances of the obviously depressed purchase price the first time around. But you are quite right, we found these transactions throughout Newark. I have a number of them that occurred the same day. The very same day, morning and afternoon. Even on those where they didn't occur the same day, the next day, the next week, many, many, many of them were far in excess of what appeared in the Star-Ledger. I furnished this documentation to representatives of the FHA, I furnished it to your investigators. We have found many of these transactions.

I am pleased to say that I don't find as many currently as I was finding a year ago. Perhaps the internal efforts of the FHA, of the relevant Government agencies, are tightening up. The other alternative is that the parties involved may be more sophisticated in transferring to an intermediary and then out. I used to do it through an indexing system which made it easy for me to locate it when it was the same individual repeatedly involved in these and there were certain individuals who we found all the time. Today we are finding

strange names as the middleman. We now index them a different way in order to locate them. They are still occurring but as I say, my experience indicates at a decreasing rate and I am pleased to be able to tell you that.

Mr. MINISH. And if you attempted to increase the assessment when you learn the house was purchased for a certain price, then the individual involved who got burned in the first place would be getting another sock in the chin.

Mr. WOLFE. There seems to be no doubt if these properties were to be assessed at anything like what they are selling for that the ultimate outcome would have to be foreclosure. There is no way that these properties could carry that kind of assessment.

Mr. MINISH. That is all, Mr. Chairman.

Mr. STEPHENS. Thank you very much.

Mr. MINISH. We appreciate your stopping by.

Mr. STEPHENS. We have a few minutes before we recess for lunch. I understand that there is a gentleman here, I did not get his name, that represents Mr. Padula and you wanted 5 minutes to present some information, and you will state your name and identify yourself

STATEMENT OF JOHN DALY, ON BEHALF OF ARTHUR H. PADULA

Mr. DALY. My name is John Daly, and I represent Arthur H. Padula, one of the largest builders in the State of New Jersey. He is presently hospitalized and unable to be here himself, but he would appreciate the opportunity at some future time to appear before you and give his statement that he has prepared on some of the problems that builders have in relationship to FHA and HUD both rehabilitation and in new construction.

Mr. STEPHENS. Without objection we will enter that in the record. (The statement referred to of Arthur H. Padula follows:)

STATEMENT OF ARTHUR H. PADULA, PRESIDENT, ARTHUR H. PADULA CONSTRUCTION CORP., NEWARK, N.J.

Chairman Minish, Mr. Padula is acutely aware of how your committee has worked long and tirelessly to bring about sorely needed housing in the American cities at prices people can afford to pay through the maximum use of existing facilities and the immediate production of new housing to bring about an end to the housing shortage.

On August 24, 1972, Mr. Padula, out of sheer desperation requested this Congressional hearing for the following specific reasons:

1. A review of the Newark building permits revealed a virtual cessation of housing.

NEWARK, N.J., BUILDING PERMITS

[Expressed in units]

Year	1-family	2-family	Multifamily	Public housing	Demolished
1969.....	0	2	1 447	0	1,093
1970.....	0	7	12	0	1,191
1971.....	0	4	223	0	1,003
1st 6 months, 1972.....	0	1	0	0	1,136
Total.....	0	14	682	0	* 4,423

¹ Built by Arthur H. Padula at 515 Elizabeth Ave. (265) and 440 Elizabeth Ave. (207).

² Built by Jack Parker.

* 4,423 units demolished could have well been 10,000.

F.H.A. RECORD OF MORTGAGE INSURANCE

In 1969 insured mortgages totalling \$50,000,000—\$9,146,800 in Newark.

In 1970 insured mortgages totalling \$50,000,000—None in Newark.

In 1971 insured mortgages totalling \$50,000,000—None in Newark.

First 6 months 1972 insured mortgages totalling \$25,000,000—None in Newark.

2. This unbelievable record is probably the worst in the United States. We believe that it was never the will of Congress to deny housing to the citizens of Newark. Yet H.U.D., the official Housing Agency of the Government by arbitrary, capricious, unrealistic rules and regulations have in fact denied the will of Congress to the people of Newark with no apparent change to come in the immediate foreseeable future.

The City of Newark in its plea for help April 30, 1967, directed to the United States Government for aid under the Model Cities Program, said that it was not only New Jersey's biggest city but one of the biggest cities in the country, and as such could well serve as "the testing ground of tomorrow."

1. It has the highest crime rate per 100,000 of population.
2. It has the highest per capita tax rate.
3. It has the sharpest shifts in population.
4. It has the highest rate of venereal disease.
5. It has the most new cases of T.B.
6. It has the highest maternal mortality rate.
7. It has the nation's second highest infant mortality rate.
8. It has the 7th largest concentration of drug addicts.
9. It has twice the rate of unemployment of comparable cities, and as such qualifies for special assistance.
10. Its elementary schools run 112% of capacity. Some schools run 51% more pupils than theoretically possible.
11. Half of the third graders are at least six months behind in their reading tests.
12. Half of the sixth graders are at least 12 months behind in their reading tests.
13. The turnover rate in some schools are as high as 15%.
14. 3/4 of the slum dwellers live in sub-standard housing, many with outside toilets, no baths and no adequate heating.

If you were asked for the causes of the riots, rebellion or insurrections in Newark, how could any honest person say, "I really don't know."

3. The H.U.D. Newark Office refuses to finance its own estimate of costs by refusing to recognize the cost of:

- (a) Affirmative action (Equal Opportunity).
- (b) Prevailing wage requirements.
- (c) Known costs escalation that have been pre-determined.
- (d) Actual costs of land values.
- (e) Arbitrary criteria of land use and development that may be applicable to suburban concepts but are not applicable in central cities areas.
- (f) These arbitrary unrealistic restrictions are even hindering the use of conventional and State funds who seek Federal aids and subsidies.

The problem in Newark so far as housing is concerned is not whether we need housing—that issue is beyond debate—the issue is how do we get housing at prices people can afford to pay. Newark is not a wealthy city, 52.1% of Newark's residents had moved from one house to another between 1965 and 1970. Mean (average) family income is \$8,637. Median income is \$7,735. Families with annual income of less than \$3,800 are considered to be living in poverty. By this definition 18.4% of Newark's families are below the poverty level. For black families this figure is 23.6% and for Puerto Rican families it is 24.4%. (Source: 1970 Bureau of Census report.) The percentage of poor families on welfare is 47.5% overall: 55.8% for blacks and 47.9% for Puerto Ricans.

Therefore, how can H.U.D. continue to use the basis of costs to be 135% of the income limits of Newark's Public Housing Limitations for mortgage financing? The basis is unfounded and ridiculous. Perhaps by using the velocity of and the direction of the wind they might have a more scientific approach.

I respectfully request this Committee to place emphasis not only on what has caused this cessation, but what positive steps can be taken administratively and/or legislatively to correct the condition forthwith.

As I have explained, I am presently hospitalized and thank the Committee for allowing this appearance through Mr. John Daly, my Administrative Assistant. I shall be pleased to come to Washington to testify before you with documentation of what has been discussed.

ARTHUR H. PADULA.

SUGGESTED QUESTIONS BY MR. PADULA FOR THE COMMITTEE TO PUT TO OTHER WITNESSES

Ask Mr. Sweeney of H.U.D.:

1. How many people are on his staff?
2. What is the amount of Annual Payroll for Staff?
3. Why with this amount of staff and payroll you did not produce 1 unit of housing in the last year. If so, why does the Government maintain the office? What is wrong with the operation?

Rebuttal to Mr. Sweeney's possible replies:

- A. Rehabilitation projects have been undertaken.
Yes, but this type of work does not increase the housing inventory in the city. We need more units to live in.
- A. No one files to build
No builder will file when it takes a matter of one to one and one-half years for H.U.D. to process an application and knowing of the unrealistic rules and regulations and costs.

Question 4.

Why are a number of applications through the State of N.J. held by H.U.D. because of application of arbitrary criteria as:

- (a) Highways
- (b) Density
- (c) Immediate surroundings (may apply in suburbs but not in central city).
- (d) H.U.D. holding back State programs?

5. Use of existing facilities.

There are vacancies in Weequahic Park Tower and Plaza for which a request was made to use Section 23 Funds (Leased Housing) and under Public Law 91-646, (Displaced Persons). Months have gone by but H.U.D. to date refuses to recognize realistic rents to make use of empty facilities with no capital investment of the part of the Government.

Suggest calling of John Renna, Executive Director of N.J. Housing Finance Agency

Ask of him: What inhibitions and restrictions on him by H.U.D. makes it impossible for him to place his program into effect in the City of Newark.

BIOGRAPHY OF ARTHUR H. PADULA

Arthur H. Padula resides at 14 Farview Road, Millburn, N.J. having his principal offices at 455 Elizabeth Ave., Newark, N.J. He is President and sole owner of the Arthur H. Padula Construction Corp. and all related companies. As Sponsor, Redeveloper, Builder and Owner, he has completed over \$60 million of housing and related facilities throughout the northern, N.J. metropolitan area since 1947 including:

1. Ivy Hill Park, Newark, N.J., 5-14 story middle income apartment buildings—2,095 units built and financed under Section 608 insured by F.H.A. totaling \$17 million.

2. Harrison Park, 377 So. Harrison St., East Orange, N.J. 1—25 Story luxury housing apartment—250 units conventionally financed by the Travelers Insurance Co. Involving \$5 million.

3. Three—10 story housing for the elderly projects located in Long Branch, Perth Amboy and East Orange. Served as General Contractor and built under Section 202 of the National Housing Act—450 units, totaling \$6 million.

4. Gregory Park, Jersey City, N.J. Built, owned and still managing 1,000 units and 25,000 sq. ft. of commercial space in three—30 story high rise apartment buildings, built as the first stage of the downtown urban renewal project under Section 220 and Section 221(d)3 of the National Housing Act involving \$17 million of F.H.A. insured financing.

5. Weequahic Park Tower, 455 Elizabeth Ave., Newark, N.J. Built, owned and Manages 210 families, 20 story middle income housing project, built under Section 207 of the National Housing Act, insured by the F.H.A. for \$3 million.

6. Weequahig Park Plaza, 555 Elizabeth Ave., Newark, N.J. Built, owned and manages 25 story middle income housing project, 265 families under Section 207 of the National Housing Act, mortgage insured by the F.H.A. \$5 million.

7. Zion Tower and Carmel Tower 515/440 Elizabeth Ave., Newark, built and manages 2 low and moderate income housing projects under the N.J. Housing Finance Agency totaling 472 units—\$8½ million of mortgage financing.

Mr. Padula began his Naval career as an apprentice Seaman, rose to the rank of Rear Admiral. CEC, USNR with 28 years of Federal service. He is a licensed professional engineer and land planner in the State of N.J., Senior member of the Society of Residential Appraisers, certified property manager and accredited by the Institute of Real Estate Management.

Mr. Padula is a licensed Real Estate Broker and Insurance Agent, past President of the N.J. Builders Association, N.J. Builders, Owners and Managers Association and presently Chairman of the Board. He is a member of the National Legislative Committee of the National Association of Home Builders and has appeared as an industry spokesman in connection with housing legislation both in the Senate and the House of the Congress of the United States and before the Senate and Assembly of the Legislature of the State of New Jersey.

He has spent a lifetime as a devotee of the construction industry with specific emphasis on housing and its related problems.

Mr. STEPHENS. Thank you very much. We appreciate your taking your time. Mrs. Iris Wells.

STATEMENT OF IRIS WELLS, SPECIAL SERVICES DIVISION, NEWARK HOUSING AUTHORITY

Mrs. WELLS. I am Mrs. Iris Wells, special services division of the Newark Housing Authority and, sir, I would like to state now that what I have to say will take more than a moment or two because I have actually documented cases here on the 235 program with the knowledge of the abuses not only by the realtors involved but by the Federal and State agencies involved that go to help cause the problems these families have. There is less than a half percent vacancy rate in the entire city of Newark area with approximately 12 on-going urban renewal programs.

Earlier you wanted to know about the vacant land. There was 105.2 acres of new urban cleared land as of July 13, 1972. As of this time there have been 200—that must be a thousand—1,000 and 5.2 acres cleared. There have been 205.6 acres sold.

Mr. STEPHENS. That leaves roughly 1,000 acres.

Mrs. WELLS. Yes. And out of those 253 acres sold there has been approximately five buildings, actual buildings going up in this area.

For a family to go into a 235, purchase it, has been a thing of need, not being able to, as you were saying earlier, just buy a home. This is having a shelter, having someplace to live, and the different agencies themselves have caused this to be a bad problem. Anyone who has tried to help these families have been put in a position of being made a liar, to be doubted, to be formed around them. I will say this. There are certain realtors in the area that were aware of that use of this program and we go to FHA and say to FHA that these realtors are doing this, and we have the documentation, but when we go back to another closed meeting for the families with FHA these realtors are there and their representatives are still sitting in there and any other realtor who tries to sell a 235 program will not be able to sell this, a realtor will not be able to sell this house because he doesn't happen to belong to that par-

particular real estate organization. I am talking about Colony & Barris and all of these realty companies.

Mr. MINISH. Are you suggesting there is a closed shop on the people that handle the 235 sales?

Mrs. WELLS. Yes, I am; and I have tried to get to you, as you know, Congressman Minish, and we have tried to have meetings. I have tried to get this thing open for 3 years. I have been fighting to get this open in Newark and at this particular hearing this should be brought out in its entirety so that something can be done to help the families.

I happen to know when they first started this 235 program here the Newark area does not get the benefit of the money anyway because the money is all put in a pool for the entire State of New Jersey and only is it up to the office here in Newark, the Federal office, FHA office, which area gets what, and Newark ends up getting less than any other area, any other county, and what they have to choose from is nothing. They are either told that they have to buy this piece of property that is going to fall down on their heads the next day or they get nothing. If they try to go outside of the Newark area to even purchase they are discouraged by the town they are going into and by the FHA office here in town. If the family does purchase a home and needs help there is nowhere for them to go. There is nowhere. And they say there is nothing we can do.

As for the gentleman who was talking about the fact that the problem with the 235 program is not as evident now as it was in the past year, it is because there are not that many houses being sold on 235 now as was in the past few years. When flat grant came in as to the welfare for the welfare recipients, that right there made mass dispossession on homes. When welfare was paying a specific amount for a family to be able to pay a mortgage, then they put in a flat grant which meant they no longer could get that money, that meant one thing they would lose their house, because they no longer could pay for it.

So I think one agency is playing against the other agency and the people are left in the middle.

I know everyone is watching the clock.

Mr. MINISH. When you talk about the flat grant—

Mr. STEPHENS. Excuse me a minute. We are going to recess at 12:30, however, if you will come back at 2 o'clock I will be glad to continue this because I don't want you to feel I don't want to hear what you have to say. We want to hear what you have to say.

Mrs. WELLS. This is something else. The people that are really involved in what is going on here, firsthand knowledge, that is working with these families and the problems, were not notified of this hearing.

Mr. STEPHENS. Basically the hearing was for the oversight on the Model Cities program.

Mrs. WELLS. But all of it ties together.

Mr. STEPHENS. Yes, I agree that it does. But I would say that the main jurisdiction and purpose of our visit has been on Model Cities but, as you expressed it, they are all tied together, and we are all interested very much in the 235 program also.

Mrs. WELLS. Is there a possibility of having a specific hearing around this?

Mr. MINISH. Mrs. Wells, first of all, if you have some information, and we receive information in our offices maybe once a week on this,

and we do process it and we do send it to the appropriate agency, but if you have some information that you can supply the committee on the real estate problem we will take it up with the FHA. The Director will be here this afternoon.

Mrs. WELLS. Right. Because its the agency itself that has to be— this is sending information to FHIA who is the one that is causing the problems such as the inspectors that we have had from FHA to go out and inspect the properties, to say that this property has to have this, that, and the other. You go into a house and the floors are falling through, that is being held up by a jack in the basement, whose roof has newspapers around it, and have a report turned in to you that the garage needs painting and the front steps need fixing and that is all. And then when the inspector goes in and the realtor, this person cannot buy that house unless this is fixed up, the plumbing, the electricity, but FHA didn't have that down there. They said we are not in the housing business, we are simply there to do such and such a thing, which is nothing to help the person, and then when you turn this back to FHA and they say that particular inspector is doing better now.

Mr. MINISH. The chairman has invited you back and meantime anything that you have which needs looking into the staff would be happy to have it and turn it over to the appropriate authorities.

Mrs. WELLS. OK, thank you.

Mr. STEPIENS. We will be glad to have you at two.

Mrs. WELLS. I will be here.

Mr. STEPHENS. We will now recess until 2 o'clock.

(Whereupon, at 12:25 p.m., the subcommittee recessed, to reconvene at 2 o'clock on the same day.)

AFTERNOON SESSION

Mr. STEPIENS. Ladies and gentlemen, our afternoon session will come to order.

The first thing that I would like to do is to welcome the distinguished Congressman from this district of Newark, the Honorable Peter W. Rodino, who is here this afternoon. I would appreciate it if you would come up and sit with us and if you would like to participate we would be more than delighted to have you do that.

Mr. RODINO. Thank you.

Mr. STEPHENS. When we adjourned at lunch time, Mrs. Iris Wells said she would like to go a little further in the testimony that she was giving and I told her that I would recognize her. I don't see Mrs. Wells here at the present time. Have any of you seen her? Is she out in the hall?

Mr. Williams, I ask your indulgence in letting her continue if she so desires. We also told her if she would like to we would be delighted to have a summary of her ideas in writing as part of the record of this hearing. Since she is not here then we will proceed with the testimony and the first witness this afternoon is Mr. Junius W. Williams, the Newark Model Cities Administrator.

Mr. Williams, we are glad to have you here. If you have written testimony we will be delighted to take it and insert it in the record and then you can summarize it. We have the reporter here and any-

thing that you would like to say would be welcome. So you may proceed then in any way you desire.

As I said earlier this morning these oversight hearings are for the purpose of gathering information on Model Cities primarily and then other related programs of HUD. The procedure will be informal and if the members of the panel here would like to ask you questions, I hope you will agree to let them interrupt you in your testimony. If we are testifying in some way, you may also come in. So if you will proceed, we will be glad to hear from you.

STATEMENT OF JUNIUS W. WILLIAMS, DIRECTOR, MODEL CITIES PROGRAM, NEWARK, N.J., ACCOMPANIED BY LEE MCCAIN

Mr. WILLIAMS. Thank you, Congressman. I am very glad to have the opportunity to speak with you because I think there are many things that are positive about Newark that don't get a chance to be heard. There is Mrs. Wells.

Mr. STEPHENS. Mrs. Wells, we had called on you.

Mrs. WELLS. I am sorry.

Mr. STEPHENS. If you would like to proceed now, like I said, we will be glad, if Mr. Williams—

Mr. WILLIAMS. I have no problem with that.

Mr. STEPHENS. You will have time. Thank you Mr. Williams. I do want to let her know we wanted to keep our commitment.

We can't complain about Mrs. Wells being late because we were a little bit late too.

STATEMENT OF IRIS WELLS, SPECIAL SERVICES DIVISION, NEWARK HOUSING AUTHORITY—Resumed

Mrs. WELLS. Thank you. Actually I would like to summarize what I was saying. That the problem is one that will have to be dealt with from the Federal level. The program, the 235 program, is an extremely important program and I am hoping this committee would not push for having this program taken away from the people but in making policy for the program to please include the people that are at a level working with the families knowing the needs and the problems instead of doing it from a Federal agency basis.

Mr. STEPHENS. Well, that is very fine. As I understand it, you are speaking from your personal experience.

Mrs. WELLS. Right.

Mr. STEPHENS. And in your personal capacity.

Mrs. WELLS. Right. And there are records available to this committee that anyone interested with the Newark Housing Authority Special Services Division backing up of the allegations being made against the agencies or realtors.

Mr. STEPHENS. If you would like to submit some of your documentation to us, we would be glad to have it.

Mrs. WELLS. I will be submitting it in writing.

Mr. STEPHENS. That will be great.

Mr. Rodino, would you like to ask some questions?

Mr. RODINO. I have no questions to ask. I would merely like to state what I emphasized at the luncheon, Mr. Chairman, that I think this is

a healthy sign of the deep concern that is held by those who are the Federal legislators. This hearing is of immense importance to all of us who are residents of the city of Newark and to all of us who have a deep concern with the needs that are really critical here. Housing, decent housing, is so basic to every one of us. I think that Mrs. Wells expresses the kind of concern that is expressed by many individuals. The fact that programs that we have long supported very actively and enthusiastically, which were designed to provide housing to rebuild cities such as Newark, which is the central city, the largest city in the State, and one of the most urbanized in the whole United States, makes people concerned about the manner in which funds are expended and the manner in which programs are actually administered. Like you I share the concern to see that whatever action is needed is taken. People who are industriously striving to rebuild sometimes make errors, sometimes there are mistakes, even in the legislation that we sponsor. For that reason I think it is incumbent on us, those of you principally gathering the information, to find out from the people and those who are experts, such as Mr. Williams, who administers a very, very important program which I know has very great advantages for all of the residents exactly what is going on.

I think this is something the committee ought to know about and be able to do something about because it is our money, it is our city. I have a big concern not only as a legislator but as a man who has lived all of his life in this city, has reared his family here, and hopes to continue to be here, and is the Representative of this particular community, which I know has great hope. I would like to be able to share with you this kind of a feeling that we do that which is necessary to help the situation and to restore the kind of enthusiasm that I think is necessary for people who want to help rebuild the city. And other than that, Mr. Chairman, you are the people who are the experts in this area and I am going to be anxious to see what you develop and then to talk with you further.

Mr. STEPHENS. Thank you very much.

Mr. Widnall, have you any questions or comments you would like to ask Mrs. Wells?

Mr. WIDNALL. No. Mrs. Wells, we do appreciate your coming back again this afternoon. We certainly will look at the documentation that you submit to the committee.

Mrs. WELLS. Thank you.

Mr. MINISH. You wanted to talk further about a rehabilitation program, I think it is called FACE. Did you care to get into that?

Mrs. WELLS. The FACE program was a very inadequate program for the size city this is and the problem in the city.

Mr. STEPHENS. F-A-C-E?

Mrs. WELLS. Yes. It is the code enforcement program. The type of problems that the families that were in need of this program ran in was like promises and no delivery, 2 and 3 years waiting for a problem to be fixed on a property, that the length of time made that problem twice as bad as it was when it first started. The program just wasn't set up. It didn't seem to be set up for expediency in the problems in helping the people in the area and it was completely inadequate. That is, actually saying that you say it all and it wasn't large enough, it

didn't cover enough of the city, and what it did cover it didn't do very much on. That is about it.

Mr. STEPHENS. Thank you very much for your evaluation and we appreciate your being here and glad that you came back.

Mrs. WELLS. Thank you very much.

Mr. STEPHENS. Now Mrs. Williams, I don't believe we have any other commitments except to you. Oh, yes, we do have Mr. Sweeney who will follow you. What I meant was that we won't have to ask for your indulgence any further. So if you will proceed.

**STATEMENT OF JUNIUS W. WILLIAMS, DIRECTOR, MODEL CITIES PROGRAM, NEWARK, N.J., ACCOMPANIED BY LEE MCCAIN—
Resumed**

Mr. WILLIAMS. As I was saying, there are two parts to my presentation. When I talked to Mr. McKeever from the Housing Subcommittee he said you would be interested in learning just what we are doing, what we are involved in, in Model Cities. so I have attempted to do that in two ways. You have a package of material, one of which I would like to submit for the record, and I will so give it to the gentleman here.

Let me explain a little bit about the package. The first two pamphlets, more or less, state in summary fashion just what we are all about and what we have done. The blue one is a little older than the black one but I think it can give you a general idea of what Model Cities Newark has accomplished and should be read through, as I hope you will. It talks about everything we are all about.

Mr. STEPHENS. Excuse me, go ahead.

Mr. WILLIAMS. The third document is what we call the Directory of Services.

If you are ever in the model neighborhood area and need some help you can call us because all of the phone numbers are in here.

The next document is something we call Toward Revenue Sharing. I am pretty proud of this one because I wrote it myself, and because I think it gives you an idea of the direction in which we are trying to take the program in terms of process.

I think you know Model Cities is supposed to represent some result but it is also supposed to represent a process, a means by which the cities learn to handle and expend properly Federal money.

The next item I would like to submit for the record is an article entitled, "HUD Aide Lauds Newark Housing Revamp," from the Newark Star-Ledger of July 19, 1972, which highlights certain programs which have received national attention. We have been called the best project rehab in the country. It is a program I am personally responsible for. We are rehabilitating 2,500 units in the west, south, and north wards primarily and as such the Federal officials who did come up here thought it was very good and worthwhile to bear that title.

The last item is an excerpt from a document called Crime and Delinquency Literature, and it states that the Newark program in the opinion of the writers is also the best in the country from the standpoint of the "most well-rounded program of projects related to crime and delinquency."

So I would like to offer that into the record.

Mr. STEPHENS. Just a minute. Without objection what you have presented will be part of the record. I do not think that we will be able to print all of this in the hearings but it will be made part of the record of this hearing. Without objection that is what I like. We will have this as a record and file it with the committee.

(The document, "Toward Revenue Sharing: The Model Cities Experience in Newark" follows; the balance of the documents and material referred to by Mr. Williams are retained in the subcommittee's file due to space limitations.)

TOWARD REVENUE SHARING:

**THE MODEL CITIES
EXPERIENCE
IN
NEWARK**



**COMMUNITY DEVELOPMENT ADMINISTRATION
NEWARK, NEW JERSEY**

**KENNETH A. GIBSON
MAYOR**

**PREPARED BY
JUNIUS W. WILLIAMS
CDA DIRECTOR**

MARCH 1, 1972

TOWARD REVENUE SHARING: THE MODEL CITIES EXPERIENCE IN NEWARK

The prime objective of Revenue Sharing is the right of the City to set its own priorities in allocating federal dollars. This is a desirable goal, but certainly not a simple one. There must be a manner by which the City can create and sort through alternatives with respect to how these dollars can be utilized, once priorities have been established. In Newark, the Model Cities Experience has provided the framework for the transition into the forthcoming Revenue Sharing all important phase of the planning process. In other words, Newark is ready for Revenue Sharing procedurally, structurally, and attitudinally because it has developed the comprehensive planning capacity made possible essentially by the Model Cities Experience.

From its inception, the Model Cities Program has been used in Newark in a rather unique way. The need to develop a comprehensive planning capacity for a large area of the City was seen as the opportunity to use this capacity as a nucleus for a citywide comprehensive planning organization. A special citywide organization, the Community Development Administration (CDA), was created by municipal ordinance as an arm of the Mayor to plan for and administer the Model Cities Program. This agency, however, was given the power in the ordinance to plan citywide for physical, social and economic development. Existing divisions of economic manpower and physical planning were incorporated into it. New areas of planning, such as health and law enforcement have been developed by it. Education and housing planning capabilities were included ostensibly for the Model Cities Program, but also to stimulate new thinking in these areas which was not coming from the Board of Education and the Housing Authority. Therefore, from the beginning, the CDA became the major conduit for federal and state monies for the City as well and not only for the Model Neighborhood. Supplemental monies were not merely used as seed monies to bring additional resources in citywide. This has been particularly true in physical development, health, social services and law and public safety.

A look at a partial listing of our projects can show (a) the breadth of the planning process, all coordinated through one shop, (b) the use of Model Cities supplemental grants to attract additional resources to the City as a whole. (See Appendix A)

As a citywide organism, the CDA was not a dormant conduit for Model Cities and other categorical assistance funds. From the outset of the Gibson administration, the CDA was used by the Mayor to attempt to redirect federal emphasis toward priorities as set up by the Mayor himself. In other words, Newark has experience in attempting to make categorical funds work in accordance with City priorities and timetables. Some of our attempts have been successful while others have not. For example, the Mayor was successful in re-planning a series of juvenile delinquency grants given to the Newark Youth Services Agency to conform with his own goals. A similar situation is true with respect to a number of grants coming into a proposed \$1 million multi-modality drug treatment center. On the other hand, attempts at negotiating with OEO for coordination of a network of health centers was not successful at all.

The citywide comprehensive planning body, CDA, was also enabled through the Model Cities Experience to understand other aspects of coordination of federal funds. In addition to sorting through alternatives as mentioned above, we have found it necessary to insure that funds get spent in the way planned. To insure delivery, we established a Contract Compliance (or Monitoring Unit) within the CDA which, on a daily basis monitors programs, suggests changes and helps determine future funding patterns. Furthermore, cognizant of the need to place a value on the effect of any attempt to provide services, an Evaluation Unit defines short-term and long-term measurable objectives from the outset of planning. It seeks to reach conclusions about the overall successes or failures of a project within these input and output measures.

It has also been determined, as a result of the Model Cities process, that no effective planning can be done with flexible categorical monies—as countenanced by Revenue Sharing—without the capability of the planning unit to do budgeting. As we shall see in a step-by-step trip through the comprehensive planning process. Budgeting is a means by which rational allocation is made on a dollar-to-task-accomplishment basis to assure maximum mileage from the federal dollar. This is done through the initial planning process and through the all-important re-planning process. This concept advanced by Model Cities is definitely in conflict with the thought that planning should be simply a budgeter's prerogative. Model Cities and Newark, through CDA, has shown that budgeting is a tool for planning.

More needs saying about the actual lessons learned about the planning process, since it is the nucleus of success. The Newark Model Cities process calls for comprehensive, coordinated planning in conjunction with an overall "comprehensive development plan" (CDP). In short, this means the following:

Integration between and among program areas. For maximum impact in the community, Health and Manpower planning has been integrated. For example, Newark's Model Cities Program countenances a health, education and manpower training package all tied up in what is called the Model Cities School Proposal.

- Over \$600,000 has been packaged in experimental educational designs, including teacher training and awards for innovative educational ideas designed by students or teachers.
- Newark's schools are seen as a basis for health. The 7,000 students in five schools located in the Model Neighborhood Area receive free pre-paid health insurance for dental and other testing purposes.
- The manpower aspect is attended to by virtue of the fact that jobs and training necessary to qualify neighborhood residents to administer all aspects of the program are created (except the most highly technical which will of course be handled by trained technicians).

Housing, Social Services and Manpower training have also been integrated. Project Rehab countenances 2500 units of middle income rehabilitated units over a two-year period throughout the City. In addition to housing units in the same areas treated by Project Rehab, special attention has been placed on social amenities.

- recreation centers (two additional multi-purpose centers will be constructed in the Model Neighborhood Area within the next year),
- commercial facilities, to the extent allowed by FHA, and
- health centers in sub-areas targeted for Project Rehab over the next year within the Model Neighborhood Area, one of which is already under construction near the Columbus Homes Project.

Avoidance of duplication with other efforts throughout the City. Since the advent of Mayor Gibson, special attention was given within the CDA to planning which did not in fact duplicate the efforts of other private and City agencies within the City and which concentrated program impact in the most meaningful way. Success can be judged in terms of our disposition of certain projects.

The Neighborhood Design and Land Use Project (largely a consultant contract for a long-term master plan) was re-directed so that a larger portion of the planning efforts would go into working with

CDA staff in detailing longer term recommendations for current physical program planning. Certain major new ideas evolved:

- A section of the Model Neighborhood considered most likely to profit from smaller physical improvements was designated the Immediate Action Area with several projects focusing on this area; housing fix-up and repairs, street lighting, public transportation amenities and general landscaping activities.
- The consultants coordinated and assisted the social service planners with locating facilities for their areas with general redevelopment schemes: the location and construction of a health station and the siting of multi-purpose centers.
- Highway planning was re-oriented so that transportation plans would be incorporated with plans for the Immediate Action Area and redevelopment areas. (An alternative to plans for a major highway cutting through the Model Neighborhood was developed and accepted just recently by the State Department of Transportation).
- Two housing corporations—one for rehabilitation and one for new construction—were combined (HDRC) into one unit with greater coordinative powers for the purpose of implementation.
- In health, social services, law and public safety, education and manpower, only projects which offered promise of training to Model Neighborhood residents or improved delivery of services through facilities located in the Model Neighborhood Area were kept revised. The beginning of networks of health stations, multi-purpose centers and youth and drug centers were incorporated into the program, as were several projects to improve information distribution and referrals.

Re-planning. This is the art of taking a second look at what has been created and changing directions once it is apparent that maximum mileage is not being gained from the federal dollar. It is a very sensitive matter as it involves contracts with operating agencies, the expectations of people holding jobs, neighborhood residents receiving services, etc. However, the art of "re-cycling", which is a budgeting and planning process, has been mastered as a result of the Newark Model Cities process. For example, of \$5.6 million, \$5.2 million was unspent in July of 1970 when the present administration began operating CDA (See Appendix B). Within a few months period, three projects were eliminated and six projects extensively revised so that money could be pushed into project areas that were moving and less into those projects that were not moving. Five new, but interrelated, projects were developed.

Only the flexibility of funds in the funding process that was Model Cities made this exercise possible. Such will be the case with Revenue Sharing and thus the skill is worth learning.

The use of disciplinary techniques as a means by which to plan. This is perhaps the most artful lesson to be learned from Model Cities. It is not possible for one person or one group of persons with the same viewpoint to actually put together the most creative and practical package using federal dollars. For example, in developing the Gladys E. Dickenson Health Center to tend to the needs of the Columbus Homes residents, a 15,000 square foot modular structure now under construction in the North Ward of Newark, it was necessary to involve a number of actors. Of primary concern was the facility, the services that can be rendered from the facility, the administration of the program and the consumer or clientele that would utilize the services.

- physical planners had to have architectural drawings made, the property appraised, acquisition cost established, price developed and identification made of the types of manpower necessary to build or renovate the facility (in our case construct from scratch).

- Manpower planners become involved by studying the feasibility of developing minority contractors' training programs which would utilize unemployed or under-employed residents in training programs, using the health center as a basis for experience in the trade.
- The health planner was concerned about the administrative and program operations aspect that would take place within the facility once constructed.
- The health planner and/or the manpower planner considered para-professional training programs in the health area that could be tied within the operational aspects of the health center.
- Finally, the budget officer was involved in the planning process to insure the systematic allocation of monies for supplies, equipment, salaries, training stipends, etc.
- An overall Board of Advisors was created—the health consumer, in this case the resident of the housing project to be served, must have say-so with respect to how they would see the building constructed and the services rendered, as well as the all important aspect of job availability and job training.

Thus, it can be seen that planning—comprehensively—involves a number of people, a sense of timing and an ability to make sure many things happen simultaneously. Without our Model Cities experience, we would not be able to make effective, quick, expeditious, practical and idealistic, but workable, plans with the lump sum dollar arrangement countenanced by Revenue Sharing.

Finally, we have arrived at the stage of Model Cities development that makes our experience complete. Through Planned Variations, Newark is in the process of developing a mechanism whereby the mayoral review and comment device can be utilized as a means to give the chief executive clout in a process fraught with manipulation shifting positions. As outlined above, the planning process is a complicated and imaginative one; it is also a political one. To coordinate and comprehensively choose alternatives, the Mayor must be given control and legitimacy in terms of dealing with those funds which have heretofore not been under his control. Such is the case with such funds as Title I, the Experimental Schools Programs, administered by the quasi-independent Board of Education; or Urban Renewal funds administered by the quasi-public corporation, the Newark Housing Authority. The Mayor will have information and the ability to bring outlaying funds under his comprehensive planning umbrella. The experience gained by Model Cities and the CDA on a limited basis with the Model Cities signoff, now gives the Mayor the experience to make the Chief Executive Review and Comment under Planned Variations a successful venture. This, in turn, we see as a forerunner to the day when all funds will come into the Office of the Mayor through some form of Revenue Sharing and must be handled expeditiously, practically, and forthrightly by the Mayor. Again, the Model Cities process can produce results.

THE RESULTS OF COMPREHENSIVE PLANNING IN NEWARK

The Newark Model Cities Program and the Community Development Administration are now in the middle of their Second Action Year. The Model Cities kind of planning is now about three years old. In addition to the two \$5.6 million Model Cities grants, \$18 million has been generated by planning activities at the CDA. \$7 million represents the recent Planned Variations reservation, and about \$11 million represents categorical grants attracted from non-Model Cities Program sources. (See Appendix A for summary).

The way has also been paved through Model Cities planning for considerable loan monies to come to the City. An estimated \$30,000,000 to \$50,000,000 will come through Project Rehab which is being run by a Model Cities housing and redevelopment corporation, and an as yet unknown amount will be insured through the Certified Area Program, which will probably be administered by Model Cities' Neighborhood Stabilization and Building Improvements Projects. As important as funding is the achievement of both Model Neighborhood and citywide planning having been coordinated in most areas, and comprehensive planning among program areas—health and education, law and education, physical development and manpower, physical development and health and social services, etc.

PLANNING & FUNDING HIGHLIGHTS BY PROGRAM AREA

Neighborhood Improvements and Services, and Housing

A Neighborhood Design and Land Use Planning First Action Year project was used to hire Skidmore, Owings and Merrill, city planning consultants, to develop a master plan for the Model Neighborhood. Projects in public transportation planning and hardware (street lights, street closings and improvements, bus shelters) and the Housing Development and Rehabilitation Corporation are now implementing the ideas in that plan. Other programs in Interim Assistance (small park and rodent control), Urban Beautification, Certified Areas, Emergency Repairs, Neighborhood Stabilization and Rehabilitation are also carrying out the ideas of the plan, effecting improvements within and beyond the Model Neighborhood. The major vehicle for handling major construction, whether of new housing or the rehabilitation of existing, is the Housing Development and Rehabilitation Corporation, which aids non-profit sponsors to finance projects. This Corporation also oversees the construction of community facilities as neighborhood health or multi-purpose centers.

Health

Model Cities health monies have been used to further three main thrusts—

- (1) the development of a citywide health planning capacity;
- (2) the piloting of a neighborhood health center which would act as a model for a citywide network of such centers funded from multiple sources; and
- (3) using the schools as an institutional base for providing better health and dental services to children.

The latter refers to a Dental Insurance Plan which would be piloted by providing coverage and examinations to all children in 5 Model Neighborhood Schools which are not covered by Medicaid.

Social services

Model Neighborhood projects in Consumer Affairs (education and protection), Recreation Programming and Child Care (day care) were all conceived as preludes to citywide activities in their areas. The Consumer Affairs and Child Care Projects are already citywide in scope through the receipt of additional OEO monies.

ORGANIZATIONAL STRENGTHS

Although the organization of the Newark Model Cities Program resembles to a large extent that of other Model Cities programs because it is responsive to HUD requirements and guidelines, certain aspects, in addition to its planning arrangements, stand out in the Newark program. These are extensive community organizations to reinforce the citizens-in-participation mechanism and a unique practice in hiring and training Newark and Model Neighborhood residents, particularly from minority groups.

All of these innovations can be attributed to the taking of office of the Gibson Administration in July 1970 with its overwhelming mandate to bring government back to the people in the community and to deliver the services they deserved.

Community Organization:

The citizen organizations have been organized throughout the Model Neighborhood to plan for and to receive the services of the Model Cities Program. A network of 39 Urban Agents hired from and operating in their own neighborhoods has worked among the residents to establish the basis for 75 block organizations and 13 district assemblies, or groups of block organizations, which enhance citizen participation in the Model Cities Program by requiring Model Neighborhood Council members to return frequently to the citizens that elected them at the citizens behest.

An annual Model Neighborhood-Conference is held to participate in planning the program for the following action year. The most recent Conference on January 14-15 attracted over 1,000 residents.

The Urban Agents regularly visit families on their street, assisting them with health, welfare, employment, education, legal or other problems. They have participated in surveys vital to the area--on rat and pest infestation, urban blight, and identification of leadership.

Personnel and Training:

The Community Development Administration has made an intensive effort to recruit minority employees within Newark and within the Model Neighborhood. Of 500 employees working in CDA 480 or 87% are minority persons. Eighty per cent of the supervisors in the agency are also from minority groups.

Training opportunities have extended to every staff member in the agency. Such training has included participation in State Department of Community Affairs and City Civil Service programs, refund on tuition for registration in accredited college programs, a special CDA-Essex County College Urban Studies Program leading to an AA degree for all staff wishing to do college work, plus myriad special purpose training efforts designed and implemented by consultants for central administration and projects. There have been over 1700 training opportunities (some people participated more than once). In training projects to date, over 800 of these participants were CDA staff or Model Neighborhood residents receiving their first or additional work in college programs.

Law and Public Safety

Model Cities and State Law Enforcement Planning Agency (SLEPA) resources have been coordinated to provide

- (1) a law planning capacity which has resulted in plans for
- (2) increasing police effectiveness and service;
- (3) preventing and treating drug addiction, and
- (4) reforming and supplementing court practices, particularly as they relate to juvenile offenders.

A combined \$4 million has been garnered and planned for these purposes.

Education

In the Second Action Year, a major new unit—the Office of Program Staff Development—was created within the Board of Education to oversee and coordinate existing Model Cities projects in community participation and relations, training, scholarship incentive and special educational techniques and to inject new ideas flowing from these projects and the Model Cities planning staff directly into the mainstream of Board planning.

Manpower and Economic Development

Projects in construction training and minority construction contracting were developed to tie in with physical development work being undertaken via activities in the rest of CDA, chiefly the Housing Development & Rehabilitation Corporation.

PROBLEMS

The Model Cities Program in Newark has confronted many problems, particularly because it has uncompromisingly pursued high ideals for community involvement, local employment opportunities and the delivery of quality services under the Gibson Administration. Also, because Model City's Grant has been used as intended seed money, a bewildering array of mandates and funding requirements by other governmental levels complicate and hamper local flexibility and responsiveness.

In addition to the intergovernmental relationships, there are local restrictions which make themselves most manifest in the general problem of implementing projects. The election and change in administration at a key time for Model Cities—early in the First Action Year—probably slowed implementation, although the quality of the program was improved during that period. Recruiting of local talent for both the Central Administration and the Projects has been difficult. Indeed, recruiting of talent in general has been a problem. Operating agencies have welcomed the money in most cases, but have not welcomed sincere attempts at innovation and requirements in the area of program and fiscal reporting. In certain program areas, such as health, manpower and economic development, a shared planning mandate has made it difficult to plan programs through implementation.

S U M M A R Y

The Model Cities Program, especially as the nucleus of a citywide Community Development Administration, has been a source of fresh planning ideas in almost all program areas and has resulted in considerable non-local funds being brought into Newark. Model Cities has also been the impetus by which these funds can be rationally and intelligently planned across program areas, avoiding duplication, integrating and interweaving all necessary actors in a timely fashion which includes, of course, the community. Implementation of plans, however, remains a problem. Old line operating agencies are eager for money but not new ideas, and the leverage that can be exerted by a new organization with limited resources and high standards for citizen involvement and employment opportunities is not always sufficient to move projects and programs as quickly as desired. Mayoral sign-off with respect to some of these agencies offers some hope toward the alleviation of this problem.

As intended, Newark Model Cities has fostered comprehensive policy and planning centralized under the Mayor's control. As such, it serves as a beacon for the forthcoming Revenue Sharing.

APPENDIX A

NEIGHBORHOOD IMPROVEMENTS AND SERVICES

PROJECTS	CDA ACTION YEAR	SOURCE OF FUNDS	MONEY ALLOCATED
Parks, Shade Trees & Recreation Resource Improvement	I (II See Social Services Component under Recreation Programming)	HUD-MC	\$ 234,000
Public Transportation Interim Improvements	I (II Continued as part of Neighborhood Design and Land Use Planning)	HUD-MC	100,000
Street & Building Lighting Improvements	I (II Continued as part of NDLP)	HUD-MC	135,000
Neighborhood Design and Land Use Planning	I	HUD-MC	333,000
	II		252,361
Technical Study for Expansion of the Subway	I		(50,000 used as matching from other project budgets)
	II	U.S. Dept. of Transportation N. J. Dept. of Transportation	140,000
			20,000
Transportation Study	I (II Continued as part of NDLP)	HUD-MC	50,000
Urban Beautification	I	HUD-MC	514,000
			Used as matching from other project budgets
	II	HUD-MC	(50,000 same as above)
		Local HUD	80,000
			623,903
Interim Assistance Program	I	HUD N. J. Dept. of Comm. Affairs	\$ 450,000
			225,000
	II	HUD City of Newark State of N. J. In Kind-City	550,000 200,000 50,000 25,000
Neighborhood Stabilization	I	HUD-MC	448,000
	II	HUD-MC	161,213
TOTAL			\$ 4,077,477

(Includes Certified Area Program which can provide \$357,000 in loans and grants made available by HUD for property rehabilitation)

HOUSING PROJECTS

PROJECT	CDA ACTION YEAR	SOURCE OF FUNDS	MONEY ALLOCATED
Housing Development and Rehabilitation Corporation	I	HUD-MC	\$ 207,130
	II	HUD-MC	427,270
		Project Rehab Loans	50,000,000
Housing Investment Study	I	HUD-MC	57,000
Demolition Grant Program	I	HUD	300,000
		N. J. Dept. of Comm. Affairs	150,000
	II	HUD	769,000
		N. J. DCA	375,000
Emergency Repair Services	II	HUD-MC	248,000
Relocation Payments	II	HUD-MC	500,000
		TOTAL	\$53,033,400

EDUCATION

Secondary Schools & Curriculum Planning	II	N. J. DCA	\$ 53,490
		Local-in-Kind	75,000
Higher Education Assistance			
Talent Search	I	HEW	\$ 50,000
	II	HEW	42,000
Higher Education Assistance Program	I	DCA	40,430
	II	DCA	157,867
		In-Kind	5,000
Innovative Classroom Innovation Project	I*	HUD-MC	30,000
	II	Incorporated in OPSD	
Learning Center	I	HUD-MC	30,000
Office of Program & Staff Development	II	HUD-MC	922,181
Model Schools	I*	HUD-MC	589,000
	II	Incorporated in OPSD	
Teacher Training Career Development			
Hilda Taba Staff Trainer	I*	HUD-MC	40,000
	II	Incorporated in OPSD	
Aides Training	I	HUD-MC	
Community Coordinator	I*	HUD-MC	11,000
Secondary Schools & Community Relations	I	N. J. DCA	50,000
Project Link	II	HUD-MC	Reported Under OPSD
Experimental Classroom	II	HUD-MC	Reported Under OPSD
		TOTAL	\$ 2,095,968

*Incorporated within OPSD in 2nd Action Year

MANPOWER AND ECONOMIC DEVELOPMENT

PROJECT	CDA ACTION YEAR	SOURCE OF FUNDS	MONEY ALLOCATED
Neighborhood Youth Corps	I	HUD-MC	\$ 56,000
Special Service Section	II	HUD-MC	76,617
Minority Contractors' Trade Association	II	HUD-MC	125,644
Construction Trade Training Program	II	HUD-MC	100,911
SEED	I	N. J. DCA	50,000
TOTAL			\$ 409,172

HEALTH PROJECTS

Interim Direct Dental Care	I	HUD N. J. Dept. of Health N. J. College of M & D	\$ 50,000 98,500
Home Care	I	HUD-MC	33,000
Gladys E. Dickenson Health Center	I II	HUD-MC HUD-MC Medicaid N. J. Dept. of Health & HEW projected	328,000 99,806 200,000
Lead Poisoning Prevention & Treatment	I & II	Newark Division of Health	35,000
Non-Emergency Transportation	I II	HUD-MC HUD-MC Medicaid Reimbursement & Red Cross	54,000 30,055 30,000 (projected)
Model School Health Programs	II	HUD-MC	93,180
Project Child	I II	N. J. DCA N. J. DCA Local In-Kind	\$ 96,780 131,216 100,000
Home Management Training Program	II	HEW	34,193
Health Services Management Course	II	HEW	16,375
Health Program Development Team	I	HEW HUD-MC Regional Medical Program Ass. for Retarded Children N. J. Dept. of Health	49,200 42,948 20,000 18,000 5,000
	II	HUD-MC Reg. Med. Program Ass. for Retarded Children	42,633 20,000 18,000
Allied Health Institute	II	HUD-MC	100,000

PROJECT	CDA ACTION YEAR	SOURCE OF FUNDS	MONEY ALLOCATED
Urban Rodent & Insect Control (Initial Application)	I	N. J. Dept. of Health	1,110,000
Health Information & Education Services	I		100,000
Group Practice Incentive Project	I*		50,000
TOTAL			\$ 3,005,966

SOCIAL SERVICES AND INCOME MAINTENANCE

Community Organization & Urban Agents	I II	HUD-MC	\$ 293,000 591,886
Neighborhood Facilities Grant	II	HUD-Neighborhood facilities	841,677
		HUD-MC	280,000
Recreation, Parks & Cultural Affairs	I II	(See Parks, Shade Trees & Recreation Resources Improvement)	
		HUD-MC	113,710
Child Care Development Center (Daycare)	II	HUD-MC (HEW Proposed)	117,120 500,000
Consumer Affairs Project	I II	N. J. DCA DCA	46,508 70,350
		OEO (In-Kind contribution)	150,000
Drama Training	I	DCA	50,000
Foster Grandparents	I	DCA	50,000
Paid Volunteer Program		N. J. Division of Mental Retardation	40,000
TOTAL			\$ 2,644,251

LAW ENFORCEMENT AND CRIMINAL JUSTICE PLANNING

Increase Effectiveness of Police Services			
Public Safety Personnel	I	HUD-MC	\$ 210,000
Youth Aid & Services	Prior to I* I	SLEPA HUD-MC	34,075 29,746
Pilot Teleprinter Communications Project	Prior to I I	SLEPA Local	\$ 17,070 11,380
Rapid Individual Communications System	Prior to I I	SLEPA Local	30,768 20,512
Total Area Coverage Communications System (TAC)	I	U.S. Dept. of Justice— LLEAA	149,972

PROJECT	CDA ACTION YEAR	SOURCE OF FUNDS	MONEY ALLOCATED
		Local	99,952
Police Officer Role Study	I*	SLEPA	30,000
	II	Local	21,623
Police Resource Allocation Design	I*	SLEPA	43,895
		Local	29,263
Manpower Utilization Demonstration Project	I	SLEPA	28,890
		Local	19,599
Police Cadet Project	I*	DOJ-LEAA	125,470
	II*	Local	72,031
City-County Strike Force to Combat Organized Crime	I*	DOJ-LEAA	130,000
Community Services		SLEPA	170,000
		Local	107,633
Action Now Complaint Bureau (Police Community Storefronts)	I	HUD-MC	95,558
	II	HUD-MC	133,565
Increase Services to Youth			
Newarkfields	Prior to I*	SLEPA	112,592
	I*	Local	77,025
WORC Expansion	I*	HUD-MC	11,057
		HEW	99,511
Youth Services Agency	Prior to I*	HEW	190,000
	I*	HUD-MC	63,333
Comprehensive Youth Work Training	Prior to I*	HEW	111,000
	I*	HUD-MC	18,367
Pilot Project in Pre-Adolescent Services	I	HEW	\$ 75,000
	II	HUD-MC	33,106
A Demonstration Project in the Participation of Youth-in-Youth Services	I*	HEW	50,000
		HUD-MC	12,276
Narcotics Programs			
Student Congress on Prevention of Drug Abuse	Prior to I*	SLEPA	31,684
	I*	Local	22,121
Preventive Education in Drug Abuse	I	SLEPA	40,000
		Local	26,680
Expansion of Confidential Narcotics Register	I*	SLEPA	39,978
		Local	26,680
Youth Community Drug Treatment Project	I*	N. J.	130,568
		SLEPA	124,000
Narcotics Advisory and Rehabilitation Council	I	HUD-MC	186,000
	II	HUD-MC	97,732
Law & Justice Education			
Model Criminal Justice Education	Prior to I	SLEPA	7,170
	I	Local	4,780
Criminal Justice Planning Program Development			
Comprehensive Law Enforcement & Criminal Justice Planning	I	SLEPA	40,464
		N. J.	4,496

PROJECT	CDA ACTION YEAR	SOURCE OF FUNDS	MONEY ALLOCATED
	II	SLEPA	32,938
		N. J.	3,660
Comprehensive Juvenile Delinquency Strategy	I	HEW	215,950
	II	HUD-MC	75,000
Safety			
Safety Through Lighting	I	SLEPA	47,360
		Local	31,181
Improve Legal Service			
Legal Services & Law Reform	II	HUD-MC	\$ 197,259
		TOTAL	\$ 3,849,972

*This project is operative in Second Action Year, supported by funds allocated, as shown.

ADMINISTRATION

Program Administration	I	HUD-MC	\$ 1,446,020
Task Force Technical Fund	I		115,000
Project Evaluation	I		284,011
		SUB TOTAL	\$ 1,845,031
Administration	I	N. J. DCA	\$ 123,669
		TOTAL, FIRST ACTION YEAR	\$ 1,968,700
CDA Director's Office	II	HUD-MC	\$ 261,989
Communication			56,569
Fiscal			133,115
Personnel			145,948
Office Management			209,358
Operations			158,348
Planning			330,125
Law			32,552
Model Neighborhood Council			79,181
Task Forces			35,819
Program Evaluation			119,468
Project Evaluation			97,538
		SECOND ACTION YEAR	
		HUD-MC SUB TOTAL	\$ 1,660,010
Administration		N. J. DCA	150,000
		TOTAL, SECOND ACTION YEAR	\$ 1,810,010
		GRAND TOTAL	\$ 3,778,710

APPENDIX B

COMMUNITY DEVELOPMENT ADMINISTRATION—NEWARK

FIRST ACTION YEAR

DOLLARS UNSPENT IN JULY 1970

SOURCE OF FUNDS	TOTAL YEAR BUDGET AS OF 7-1-70	\$ SPENT	\$ UNSPENT
SUPPLEMENTAL FUNDS			
HUD-MC	\$5,600,000	\$436,998	\$5,163,002
OTHER FUNDS			
DHEW	49,280	28,090	21,190
N. J. DEPT. OF HEALTH	95,000	19,025	75,975
N. J. CMD	8,460	2,015	6,445
ASSN. FOR THE MENTALLY RETARDED	20,000	12,888	7,112
N. J. REGIONAL MEDICAL Plan	43,973	43,973	—
DCA	191,207	3,679	187,528
LOCAL	83,734	57,382	26,352
TOTAL	\$6,091,654	\$604,050	\$5,487,604

SOURCE: First Quarterly Report April-June 1970

APPENDIX C

ADMINISTRATION

NEARLY FOUR MILLION DOLLARS (\$3.8 MILLION) HAS BEEN ALLOTTED TO CDA BY HUD AND THE NEW JERSEY DEPARTMENT OF COMMUNITY AFFAIRS FOR COMPREHENSIVE PLANNING, CITIZEN PARTICIPATION AND EVALUATION. ANOTHER \$7 MILLION WAS RECENTLY AWARDED TO THE CITY UNDER THE HUD PLANNED VARIATIONS PROGRAM TO EXTEND MODEL CITIES CITYWIDE.

Mr. WILLIAMS. All right, thank you.

We have also a video tape which was made courtesy of channel 47 which we would like to show to you. I think that kind of will give you a graphic picture of what the literature describes.

Mr. STEPHENS. As I understand, it is about 15 or 20 minutes?

Mr. WILLIAMS. I believe it is a 25-minute film.

In the second part of my presentation I would hope that I would be given a chance to respond to the allegations made earlier by Mr. Prins.

Mr. STEPHENS. Yes.

Mr. WILLIAMS. I was very glad to hear that he found no evidence of outright fraud and corruption because I don't think it is there. I also think that some of the things that were considered erroneous or absolutely to the left or right of center I think we can explain, and so I would like very much to have that opportunity.

Mr. STEPHENS. Mr. Williams, that is the very reason that we had the evidence that Mr. Prins gave here in person so that you would have an opportunity to hear it or to have it related to you and to give you a full opportunity to reply if you so wished.

Mr. WILLIAMS. Well, I will have within a few minutes, I hope, a written reply that I would like to become a part of the documentary record specifically on those allegations, but I would like to go over them verbally with you.

Mr. STEPHENS. Either or both will be fine with us.

Mr. WILLIAMS. All right, I appreciate that.

Would you gentlemen be willing to sit here so you could witness the viewing of the TV screen.

Mr. RODINO. I think for the benefit of the audience, it's best that we come down there.

(Thereupon, a film was shown.)

Mr. WILLIAMS. I would be glad to answer any questions, but I did want to find out about the tour tomorrow.

Mr. STEPHENS. That is what we were discussing here. How long will it take to see the places that you would like for us to see?

Mr. WILLIAMS. Well, it can take as long as you want. There is so much there. The tour that we have outlined is approximately at the minimum; I would say an hour and a half.

Mr. STEPHENS. All right. Say 8 o'clock in the morning?

Mr. WILLIAMS. Yes, 8 o'clock is fine.

Mr. RODINO. May I inquire where you will meet?

Mr. WILLIAMS. We will have a bus here at 8 o'clock and take you to the places that we have in mind.

Mr. MINISH. I don't think it is necessary to have a bus. We will have transportation.

Mr. STEPHENS. Do you have a large number of your group that want to travel with us?

Mr. WILLIAMS. There are some people that we would like to have there to explain properly in detail what you will be seeing. So it is no problem.

Mr. MINISH. I have no objection to that, but we have transportation. We will accommodate you with whatever you want to do.

Mr. RODINO. The central meeting point will be here?

Mr. WILLIAMS. Yes, sir.

Mr. STEPHENS. We will meet you in front of this place at 8 o'clock in the morning.

Mr. WILLIAMS. OK.

Mr. STEPHENS. That presentation, Mr. Williams, was very interesting.

As I understand, the development of the health care project, the center that you have there, is a Model Cities project that you anticipate will be carried on after the Model Cities program itself—

Mr. WILLIAMS. Oh, yes.

Mr. STEPHENS. Is over with. By the association with the hospital and by the medicare program and such, and that it is a lasting viable program development through your Model Cities program.

Mr. WILLIAMS. Yes, this will go on beyond Federal funds. However, we will—

Mr. STEPHENS. You mean Federal funds for Model Cities?

Mr. WILLIAMS. Yes, sir. I was going to say we will need Federal funds quite possibly through the State to take on some of the extra additional operational cost because we are trying to deal with people not eligible for medicaid and medicare through—

Mr. STEPHENS. That would be partly through HEW funding?

Mr. WILLIAMS. Yes, and State health department. I might add that the picture that you saw involved a van which was our nonemergency transportation vehicle which has taken thousands of people to and from doctors presently. That was a simulation because the equipment is now being installed in that center, and the actual center opening will take place some time this month.

Mr. STEPHENS. What about the program that you have of teacher aides, what is the possibility of it continuing, being a viable program, and where would the financing come if the Model Cities program is not continued as it currently is, because I am sure you got supplemental funds from Model Cities for the development of that. Will that be through your State program?

Mr. WILLIAMS. There are many sources on that. The five schools involved have contributed heavily to the number of teacher aides there; and as such, those people are part of the board of education structure. The board of education through the stated agencies would then be responsible for looking into this matter and seeing that this particular activity would be carried on should Model Cities discontinue, but there are many other kinds of programs in HEW which we hope to attract to this overall process, and we mentioned experimental schools on the show there. Unfortunately, we were not able to get experimental schools, that was \$19 to \$20 million; but this is a kind of overall specialized emphasis from HEW that we hope to take advantage of in the very near future, those schools and for some additional ones.

Mr. STEPHENS. Can you give me some examples of some of the programs that you have tried and experimented with and found that after your experimentation they might not be viable or you won't want to recommend that they be continued?

Mr. WILLIAMS. One of them is home care as it was set up. This was a project that was set up originally to expectant mothers with respect to proper care of themselves as they went through the sequence of pregnancy. We found people did not like to talk about it, and the van we had which was going into the neighborhood is trying to get mothers

interested in this particular health care; it just did not work, so the project was in fact phased out. We hope to reintroduce this program in the Columbus Home or Gladys Dickinson Health Center.

Mr. STEPHENS. Where they will come to a particular clinic?

Mr. WILLIAMS. That is right; and prenatal care and pediatrics will be two of the specialties we deal with when the center opens. The van is now being used by the Department of Health here in the city of Newark for some of its drug screening—I am sorry, lead poisoning screening activities.

Mr. STEPHENS. Have you had experience in services for the elderly, like meals on wheels? Have you tried some of the elderly programs in your experimentation?

Mr. WILLIAMS. One of our employees, Benita Hall, recently was selected by the mayor to head up the Newark summer program, the Newark summer feeding program, a meals program called Sunup. It was money coming out of the Department of Agriculture, I believe, for meals for people during the summer months. Hopefully, that will be the model by which we can get into many mass production activities insofar as food is concerned. Not only are we thinking about the elderly, but we are thinking about day care, because again you have a captive audience, if you will, that needs pre-prepared food in many different forms and fashions, and there are many ways we can provide that, so we have done research with respect to the elderly and day care. We have three day care centers of our own funded using title 4(A) as the other funds involved. The Model Cities was a local share, and the major contribution came from the State through title 4(A). Those are the people we would be trying to help with respect to food.

Mr. STEPHENS. Mr. Rodino.

Mr. RODINO. I was interested in a followup to the question that you put to Mr. Williams concerning the aftermath after the Federal Government has phased out the model cities program.

Did I understand, Mr. Williams, that you contemplate that this will be continued, that it will be a continuing program?

Mr. WILLIAMS. Everything won't be saved. We are not going to be able to have all of those programs, nor do we want to save all of them, because some of them, as demonstrations showed us, that they did not work; but we are one of the designs, one of the objectives, all my planners have is to figure out what is going to happen with this program 2 or 3 years from now; and by and large, programs that we in the interest of the communities have decided to fund, by and large they will be absorbed somewhere. Certainly the health center will.

Mr. RODINO. Well, especially those that you consider to be beneficial programs, it would be certainly a sad commentary if after having expended sums of money on a program that is developed to a phase where it really benefits the citizenry, that then it comes to an end.

Have you in your planning considered a phasing out period of some of the programs? Are some of them temporary in nature; are they designed to phase themselves out?

Mr. WILLIAMS. Some of them in fact are one-shot deals, as we call them. For example, the learning center concept which was associated with the nonprofit group called Newark Housing Council, that was designed just to do a specific thing. They were planning three schools in conjunction with some housing they were developing with the State

program so they needed some money to get educational consultants and as such figure out a way to make those schools a part of the board of education everyday life.

Now, as such we funded them, and we said OK, that is the way it is going to be. Now, we have several grants that are designed like that because we don't want to string people on forever.

With respect to the major activities that should be continued, and you can't avoid continuing them, it is a constant search for Federal funds or other funds to make ends meet. I am not saying we have the solution to that. We don't have the solution. Sometimes it is a year-to-year existence, but we have been able by the process of what we call creativity grantsmanship, latch on to appropriate categorical assistance with your Model Cities money and make the Model Cities amount smaller and smaller as the years go by. Again, sometimes that backfires. SLEPA, for instance, refused to fund some of our programs, so Model Cities had to pick them up.

Mr. RODINO. My concern is, as a Representative who is called upon to vote on programs, I have got to consider priorities; and although a good many of these programs are well intentioned, well planned, and do serve a useful purpose on a temporary basis, nonetheless, we do know that the Federal Government, as much as we might like to see it be the source of revenue, certainly doesn't have an inexhaustible sum of money, nor is the taxpaying public willing to support a lot of these programs. I am hopeful that as your planning continues—and, of course, I am impressed with the kind of presentation that you made here today—you will take care of priority needs, recognizing the practical aspect of the fact that funds are not just inexhaustible; and I hope you recognize, too, the great criticism that attaches to the Government between those of us who come from urbanized areas where the needs are great and those who come from rural areas who may not recognize the needs and the difficulties. Of course, we vie for the moneys that are available.

Mr. WILLIAMS. We certainly are sensitive to that, Congressman; and all the help that has been given by you gentlemen to preserve the program intact for as long as it has been, certainly is greatly appreciated. The number of things that we are trying to develop that might help the situation, and I am sure you are aware of some of them, the most recent effort was put forward by the Governor supported by the mayor to try to get an income tax. I think that would have been a way to bring more money into Newark.

We also have to look, I think, very closely at all of the tax exempt property that is in Newark and reestablish policy with respect to who ought to be taxed and who ought not to be taxed. The airport out there, which I understand last year paid about \$500,000 and it cost us \$300,000 to operate a fare station out at the same airport—

Mr. RODINO. That is a continuing problem.

Mr. WILLIAMS. Continuing expense. So we are aware of that and in our planning we try not to put anything out there that at least there is no hope—let me rephrase this—we try to plan something that does present a hope for continual funding through some other source.

With revenue sharing, the rules are going to change and we are trying to get geared up to meet that too.

Mr. RODINO. I want to say just one last thing.

I would like to point out, Mr. Williams, that as one who, as you know, has had for a long time a deep-seated interest and concern about where Newark is going, recognizing that we have all got to work together, being the sole representative now on the Federal level in the House of Representatives for cities like Newark and East Orange, and Newark being a city with the tremendous problems that it has, and knowing about the big problems that come to the House of Representatives whenever we are looking for funds, I am hopeful that we continue in the direction of trying to keep priorities assuring that funds are well spent, correctly spent, and properly administered. Too many times and too often there are those who are ready to criticize and sometimes good programs go down the drain because of improper administration.

I know there has been a lot of searching inquiry in some of these areas. I want to assure you that so long as things are being administered properly, correctly, and in the best interests of the citizenry, I am going to help, and I am going to help to the best of my ability, using my office as I have been using it as a conduit. But I also want to assure you that I am going to be strictly critical wherever I find that there is either an inability or not the capacity to do the job, or an unwillingness, or where there is an obvious closing of eyes, where there is the use of funds improperly. I say this only because I have been receiving a lot of this kind of complaint. I know some of it may be unjustified, but nonetheless because we are both interested, because we know that there are things that need to be done, I am hopeful that the kind of thrust that we are taking will improve the situation. I am sure that this committee is going to be looking upon it in just this way.

Mr. WILLIAMS. We share those same concerns.

Mr. MINISH. Mr. Williams, I want to talk to what we just saw on television and then I expect that you are going to make your own presentation and clear up some statements that were made earlier in the day and then we will have several questions. I know I will.

But let me assure you of one thing. Mr. Prins acts as an agent of the Banking and Currency Committee, so it is not Mr. Prins acting on his own.

In reference to the program. The rehab program, do you have a list of contractors or how are they selected?

Mr. WILLIAMS. I don't have a list here before me. We have approximately six or seven, if I remember correctly, three of them I mentioned here, and I don't know the others offhand.

Mr. MINISH. On what basis were they picked?

Mr. WILLIAMS. They were picked solely on the basis of ability to perform.

Mr. MINISH. And past experience.

Mr. WILLIAMS. Past experience is one indicator of that ability; yes. We relied heavily on past experience.

Mr. MINISH. Let me ask you this. How long have they been in operation as contractors, in business?

Mr. WILLIAMS. I don't have specific statistics on that but let's take Priorities, for an example. They have been in business for 3 to 4 years in Newark. They started out at Amatil Village. Mr. Gallanter's group is an amalgamation of people who have been, in fact, in the rehabilitation business for quite some time, and also Mount Carmel Guild, they have

rehabilitated several houses in the city of Newark, the latest of which is up on 15th Avenue and Bruce Street.

Mr. MINISH. Well, I am aware of the ability of Mount Carmel Guild because they have been in it many, many years and they do give their work out on bid.

Do these contractors bid for the work?

Mr. WILLIAMS. No; they do not.

Mr. MINISH. Why not?

Mr. WILLIAMS. It is not required by HUD that they bid.

Mr. MINISH. But whether it is required or not, don't you think it is fair to open the door to other contractors?

Mr. WILLIAMS. It is not a question of being open to contractors. I think we have more openings than we have contractors. We have said come in, and let's see what you can do, and not too many people have come in. I think Mr. Sweeney is here and he can tell you more about the rules of HUD with respect to the 236 program, but bids are not required with respect to that particular program for rehab.

Mr. MINISH. One of the gentlemen that you named, I recall him to be an attorney. Is he now a contractor, Mr. Gallanter?

Mr. WILLIAMS. Yes; that is correct.

Mr. MINISH. Am I talking about the same one?

Mr. WILLIAMS. I believe he is an attorney. I don't know if we are talking about the same one.

Mr. MINISH. I am sure we are.

How about the FACE program, do you administer that?

Mr. WILLIAMS. No; I do not.

Mr. MINISH. I have other questions but you want to make a presentation before we ask the questions.

Mr. WILLIAMS. No; I have no format at this particular time.

Mr. STEPHENS. Before we get into that, may I point out one thing in response to some of the items you were discussing, Mr. Rodino?

Certain parts of the Model Cities program were bound to be one-time operations. Now I will give you one example. Money can be used for paving a street in the Model Cities area and putting in curbs and gutters, and that is, of course, bound to be just a one-time operation and that is in order to make other objectives of upgrading that particular area in the social services possible. You will find that there will be some of these one-shot physical programs that are really taking over what the city has been doing before, or the county. Almost always when paving the streets you pave the streets at the expense of the abutting property owners and that is one of the reasons why in many low-income areas you didn't have paving and this was to upgrade that. So there is bound to be some money spent in that field that is a one-time operation.

Mr. RODINO. A one-shot deal.

Mr. STEPHENS. Yes. And the building, for example, of your health center itself, that is a one-time project, physical or so-called hardware program. The Model Cities program objectives, at least from our congressional feeling, is that they will experiment with a social program and if it is one that they can develop then it can be taken over and continued to be operated, like a youth training program for certain kinds of skills to be taken over and financed if it proves to be successful by the Department of Labor, and your educational experiments that he

mentioned will be used in experimentation in these areas and then if they are viable they can be taken over and run by the Department of Education of your State or your city. With funding from the normal sources this is somewhat of an acceleration of experimental ideas under one heading with the concept that has developed in housing that you have got to provide more than just a place for a person to live. That is the thrust that your housing programs have taken within the last 6 years.

There is more to housing than just giving somebody running water and a roof over their head and that is what caused a lot of complaints and misunderstanding. This is a new thrust that HUD and the committee and our communities are all experimenting together with and the Model Cities brings everything together. Is that the way you understand it?

Mr. MINISH. Right.

Mr. STEPHENS. Thank you. I just wanted to get that across.

Mr. WILLIAMS. There is another example of that which you will see tomorrow and that is the street closing up on South Ninth Street between 13th Avenue and 12th Avenue, if you can picture that. The idea there with the neighborhood residents was to provide a recreational area so that people could have a permanent place to relate to and to give them some more street lighting, some improvement in street lighting. We did that on 12th Street. That was a one-shot construction effort and as such the project was carried forth. By the way that did go out on bids.

Mr. STEPHENS. In connection with that, have you found it somewhat of a problem for people who were not included as living in the model area, wanting to move in when you began to make these improvements?

Mr. WILLIAMS. In some cases; yes. That is certainly the case with the project rehab. It is a tremendous waiting list to move in there. Most of the buildings in project rehab are in the model neighborhood area in the west ward. The same is true in the central ward where everybody says nobody wants to live there. Down on 15th Avenue there are no vacancies in the Mount Carmel Guild housing.

Mr. MINISH. That is not project rehab.

Mr. WILLIAMS. I didn't say that. I said it is within the model neighborhood area and we are helping out Mount Carmel Guild in the day care center.

Mr. MINISH. How many apartments or projects or buildings or whatever you care to call them has Model Cities project rehab completed?

Mr. WILLIAMS. I don't know how many of those 300 are completed by now but all of those that we name are within project rehab.

Mr. MINISH. You have 300 under construction?

Mr. WILLIAMS. Yes, in one stage or another; yes.

Mr. STEPHENS. That is rehabilitation?

Mr. WILLIAMS. Rehabilitation—no, new construction under Model Cities.

Mr. MINISH. Do you care to get involved in the areas where you said there may have been something said this morning, just talk about the areas you disagree with so we can at least discuss that and give you an opportunity to clear up the record before we ask some questions.

Mr. WILLIAMS. All right. I have a statement here which, if you will accept it, it has some typographical errors in it because it was done hastily in response to what was reported to me this morning, and I am not going to read it.

I would like to enter it into the record but I will go through it and pick up some of the points I think are of interest.

Mr. STEPHENS. Without objection, it will be entered in the record without the typographical errors.

Mr. WILLIAMS. Let's talk about weak operating procedures, programs not meeting needs, inability to match purpose for expenses with vouchers.

That is an overall topic that was discussed in the HUD audit report and we attempted to respond to that and did so respond by showing the evolution of Model Cities Newark operation procedures as time went along.

When I took over this job 2 years and 2 months ago, Model Cities was a small group of people behind some desk at 39 Branford Place. Most of the money had not been expended. As a matter of fact, to be exact, \$5,800,000 had not been expended. The grant was only for \$5.6 million but there were other categories not moving and so I had 6 months left really to begin programs which in some cases were not thought through and in some cases had to be changed and at the same time understand HUD and the Congress expects to see some results. So we began to set up the kind of operation that could deal with this kind of enormous responsibility. Planning had to be redone. There was no monitoring capability at all within the agency. A monitoring division had to be created whereas the program had been running for about 1 year. Evaluation also had to be beefed up. There were only two people on the evaluation staff. So these kinds of things had to be brought into focus and had to be actually done from the start.

Community organization was nonexistent because the past administration did not particularly care about citizen involvement. So you had a bunch of mad citizens running around against everything and it became our duty to integrate them into something that they could be proud of and at the same time be a part of it and make some decisions in it. So what we did has resulted administratively in several interesting things and the evidence, I think, was there for all eyes to see.

No. 1, we have a monthly reporting system which has five phases to it. One is called a narrative in which the project director lists the problems that are troubling him over this particular period, things he cannot deal with;

No. 2, we deal with fiscal which shows a record of expenses and a record of budget revisions if necessary;

Three, we talk about what we call output measures, in other words quantitatively what has the program achieved;

Four, we talk about exactly what is meant by the term progress in terms of events that actually took place in terms of the goals that were set the months before; and

Five, we talk about personnel changes.

This is not an automated system, it is a manual system, but we are beginning to learn that and as such 31 programs now participate or

31 projects that we have some responsibilities for, not operating but some responsibility report into that system. It takes time to get people to understand how that works.

We had trained people to come in and show us how to set it up but to actually make it work it takes time and we are just beginning to show those results and those results are available.

I have here some of the material that is used in terms of this project report and this is a form to show exactly how this is used.

Mr. MINISH. Where specifically are the areas in which you disagree with what was brought before the committee this morning. Try to narrow it down.

Mr. WILLIAMS. I am addressing myself to weak operating procedures now and I think the record should show I don't feel we have weak operating procedures. We have embryonic operating procedures, if I may use that term.

Another method we use is called a planalog. We attempt to budget out activities in terms of times so that we can look at a chart and see this project is successful or not successful because in x months we should be here and we are not so, therefore, we have problems.

Also we use something called time phase budgeting, which means we know on the fiscal level how much is supposed to be spent by that same period of time.

Now these things take time and they are just beginning to come into play.

As I say we have people to explain that but to get people to actually understand how to make it work, this is sophisticated technique and we by no means have come up to the Wall Street level of efficiency, which is the point I am really trying to make.

I think if there are problems with respect to surmising vouchers or vouchers not going along with the purpose, I think they could have been explained that Mr. Prins asked me about that, and I will offer that opportunity to him now, if he would like to go back, we can go back and look into the files. I am not saying everything is letter perfect, we do have problems, there is confusion, but we have answers for everything. Everything we have done has been above record. We have not tried to steal money, we have not tried to hide money. The answers are there. It will take time but we will try to find them. That has to do with number one.

With respect to the Wright-Way Riding Stable contract, I was very surprised at some of the comments that were made, such things as the number of teenagers that were available at the time of the inspection, et cetera, because this is minority entrepreneurship and we in Model Cities try to help the minority businessman when it can be shown he has a service to provide to the community.

Now, using proper city procedures, we contracted with Wright-Way so that hundreds of students, hundreds of kids all over the street could ride, and they did in fact ride. They have ridden now for 2 years at one point or another, not continually, but at a certain point such as last Labor Day we had a citywide Labor Day event at which time one of the featured activities was riding, so we gave a child a chance to ride a horse whereas before he would not have been given that opportunity.

Mr. MINISH. Is this under that contract that we talked about?

Mr. WILLIAMS. Yes, it was. This was the bulk of the money that was spent; as a matter of fact it was for that particular activity. We are not talking about this year because we are not dealing with the second action year, we are talking about last Labor Day in that case.

Mr. MINISH. You are not talking about Labor Day that went by?

Mr. WILLIAMS. Labor Day that went by, but in addition the money Mr. Prins was speaking of, the money that would have covered last Labor Day and not this one.

Now, travel. That is a biggy. Some mention, I believe, was made of \$33,000 of expenditures in the first action year listed as travel. I am going to read some of this because I would rather not miss anything, so I will just read two or three pages right into the record, if I may.

Mr. Prins apparently focused on some \$33,000 of expenditures in the first action year listed as travel. I do not know which specific items he had problems with, but it is an inaccuracy to throw the word "travel" out without explaining what this means in the CDA context. Under the umbrella of travel must be considered the local expenses of hundreds of paraprofessional people who work in our projects and must spend time in the field going about their daily activities. Examples would be the 50 people in the Community Organization Division who have at no time gone out of the city of Newark but in fact do incur travel expenses as they talk to neighborhood residents; 102 police officers in the public safety personnel who must travel throughout the model neighborhood area in vehicles provided for this purpose and on foot; 15 people in consumer affairs project who must travel the streets of Newark in an effort to educate residents of proper consumer buying habits.

Those are some of the examples. We have the model schools project where expenses are covered the same way.

We have in all 31 of our projects and in all of the projects that we have under this CDA umbrella where considerably more provision is made for local travel expenses, so I think that should be highlighted.

Also included generically under the title of travel is car rental expenses for the first action year project and administration. In some cases we were able to afford enough money within budgets so car purchases could be made, but in many instances automobiles had to be rented until purchasing could be made, using proper city procedures, and still in other cases budgetary restriction and length of time allowed for the life of a project dictated that automobiles should be rented instead of purchased.

During the first action year \$5,387.28 was allocated for the rental of approximately 10 or more vehicles.

Still another distinction needs to be made with respect to travel since \$10,000 to \$15,000 was spent in the first action year by the Model Neighborhood Council which is the participating citizens body of the Model Cities program. By law we are required to involve the citizens in the Model Cities process. By HUD policy citizens are expected to have a budget independent of the Model Cities administration. In other words, they are supposed to have the right to make some decisions. Fifty-two citizens chose to spend the money allocated for educational travel in and around the city of Newark, the immediate area, such as New York, and for long-distance travel.

Further note should be made of the fact that certain projects themselves require large amounts of money for travel because of the nature of the program. In other words, I am making a distinction between local travel and travel that is endemic to the program itself. An example is the Talent Search program which has aided in the placement of over 200 students in the Nation's colleges and as such arranges travel for large and small groups of high school students to visit these institutions. Several other local and intermediate transportation needs have been incurred by programs such as our recreation division, bus trips for parents and children to local events and to day camps.

Another program transporting large numbers of youth to cultural events within the immediate area is a Youth Services Agency. All of these expenses come under the concept of travel.

It can be seen by anyone interested in understanding what travel is all about what Model Cities is all about, it makes no sense to categorically throw out a figure such as \$33,000 without explaining what this \$33,000 means.

After examining the total record of Model Cities with respect to travel it can be seen that our travel procedures were and are the most updated in the city of Newark and as such are being adopted by the Department of Finance for all city agencies and that our record of travel in terms of dollars spent for local and long-distance travel amounts to less than 2 percent of the total grant given to the city of Newark.

I want to add a footnote; it is not in here, but there were some items listed as travel in my past controller, Fleming Jones, which were not travel at all, and right now Mr. Lee McCain, who was formerly with HUD, who is my present CDA controller, is trying to decipher out what it is that was included under the concept of travel that should not have been there at all.

I am the Director of the agency so I am responsible for it but I do think you should understand that the thing called travel is not really what it is.

So are there any questions?

Mr. MINISH. Let me ask you this. What did traveling to Miami Beach, Fla., and staying at the Fontainebleu contribute to your program?

Mr. WILLIAMS. It depends on what was going on at the Fontainebleu at that particular time.

I recently traveled, stayed at the Fontainebleu on my own, to the National Bar Association. I found it quite educational. In this particular trip I think you are referring to the one by Mr. Dennis Cherot. I don't remember particularly what this conference was, but he had to obtain a series of approvals, one from his immediate supervisor, one from his division chief, and finally one from me before he could travel to that, and whatever that particular event was we made sure that it was in fact an educational event.

Mr. MINISH. It was an educational event?

Mr. WILLIAMS Yes, it was.

Mr. MINISH. Do you think it was necessary to send 13 people at a cost of \$2,400 to Washington and in the same breath you said you need more money?

Mr. WILLIAMS. Let me read also for the record my specific response to that. One specific trip needs mentioning since there apparently was some misunderstanding about the 14 people who journeyed to Washington. The fiscal year was drawing to a close and in an effort to coordinate the travel of those people who had to make last minute funding appeals to various agencies, I insisted that all of the travel that was necessary be done coincide with the National Model Cities Directors Association Annual Conference of which I am an officer. It can be seen in the report on this travel that many people not only attended education sessions at this conference but visited the Department of Transportation, HEW, HUD, and various Congressmen who will be influential in voting on upcoming legislation necessary for the survival of Newark.

Fourteen people did travel to Washington but for five purposes.

The double bill for Mr. Coggins can be explained by the fact he was originally told by the Ramada Inn, formerly Hotel Senesta, there was no room available with the rest of our group. Unknown to him we prevailed upon the management to let us have this room since we were prepaid and would have to be liable for the room there anyway, he had taken a room in another hotel but upon our return to the Senesta.

It can be seen that Mr. Coggins spent 4 days at the Senesta whereas his bill for the other hotel was but 1 night, which after his first night he went to the other hotel.

Mr. MINISH. You said they went to visit the Congressman, these people while they were in Washington talked to their Congressmen about the funding program?

Mr. WILLIAMS. Talked to some Congressmen.

Mr. MINISH. Did they talk to the ones that at least represent Newark?

Mr. WILLIAMS. I am not so sure—

Mr. MINISH. I am sure.

Mr. WILLIAMS (continuing). Who went to see whom?

Mr. MINISH. I am sure they did not visit me.

Mr. WILLIAMS. I certainly would have come to see you at this particular moment had we been—

Mr. RODINO. I don't believe so, not to my recollection.

Mr. WILLIAMS. We were taking our instructions from the National Model Cities Directors Association which, as you know, is the overall body of Model Cities and there were other Congressmen that they wanted to visit because we had a specific story to tell coming from Newark, so there were other people involved. I can get you the names.

Mr. MINISH. I would think they would go to visit the Congressman who represent the area first. I don't see what help they can give your program by visiting someone from California or Utah.

Mr. WILLIAMS. Unless perhaps there was some personal relationship. I would agree with you on that but this again was part of the arrangement that was made with the National Model Cities Directors Association.

By and large the people who went with the agencies, I am trying to get you to report on that now, by and large the people who went visited HUD, HEW, Transportation, with reference to specific grants that we had in the hopper or grants that we wanted to institute.

Mr. MINISH. Mr. Williams—

Mr. WILLIAMS. I am listening.

Mr. MINISH. On the audit report and other reports sent to us by HUD and other people, some from your area, the name John Dingell appears in three different salaries. Is he on the Model Cities program?

Mr. WILLIAMS. He is what we call our man in Washington and what he does is to talk to the agencies and give us information about progress we are making with respect to grants that we already have or he will get information and let us know exactly what grants are possible that we can apply for.

Mr. MINISH. Well, what is he paid?

Mr. WILLIAMS. How much is he paid? I believe he is paid approximately \$19,000.

Mr. MINISH. And you feel the \$19,000 is well invested?

Mr. WILLIAMS. I feel it is well invested. He is a professional person. He maintains his own living in Washington. What we expect from him is information and we get it.

Mr. STEPHENS. Does he represent several other cities?

Mr. WILLIAMS. He personally does not. No; he represents Newark.

Mr. MINISH. Doesn't he represent Plainfield?

Mr. WILLIAMS. No; he has other people that may be associated with him but—

Mr. MINISH. Part of his firm?

Mr. WILLIAMS. They may be associated with him.

Mr. MINISH. He is the boss.

Mr. WILLIAMS. The question is, is his holding the job as Newark representative in conflict of interest?

Mr. MINISH. No one said that.

Mr. WILLIAMS. Let me put it out on the table and try to deal with it.

As far as I am concerned, as long as Mr. Dingell does his job to Newark and can show me he works 8 hours a day on our behalf, I don't know what he does for Plainfield. If he still has time for Plainfield, I think he can do that but, as a matter of fact, he has other people who work for Plainfield. As a matter of fact, the man's name is Jeff something or other who does in fact work for the Plainfield Model Cities program. Jeff Zimmerly.

Mr. ROBINO. I might add, Mr. Chairman, that while I have had no personal contact with Mr. Dingell other than to meet him, I do know that he established a line of communication with my office seeking information in trying to be helpful in seeking out Federal funds, so I do know that Mr. Dingell has been in my office and his presence has been felt there. I might say to Mr. Williams that my office has always been available to do whatever can be done although the necessary footwork, as you know, is a difficult thing to try to do otherwise, and I can appreciate where in this instance Mr. Dingell, if he is working solely for Newark in the interest of Newark, certainly serves a useful purpose.

Mr. MINISH. Mr. Williams, you had two groups, two consultant firms studying the subway. Is there any reason for that?

Mr. WILLIAMS. I am not familiar with the total administrative arrangements right now with respect to that subway but if my mind serves me correctly I believe that was because they each had two dif-

ferent specialties; one that could be performed now and one that had to be performed then. If you would like me to, I can get you more information on it. As a matter of fact, one of the things we wanted to show you tomorrow is the subway plan because it is one of the few instances in which we are going to have actual attempt to do long-range planning and bring some good, hard solid \$200 million worth of hardware to the city of Newark. So we do have those consultants and I might add that most of the work is being done in conjunction with the city planning people and they are in fact learning from the consultants and carrying their weight as well, so we really have three groups of people.

Mr. MINISH. Why do you need two on one job?

Mr. WILLIAMS. I am saying it is quite possible because of the way in which the work program or the specs were drawn up.

Mr. MINISH. You mean—

Mr. WILLIAMS. Could you tell me the names of the consultants? Maybe I could be of some help.

Mr. MINISH. Yes; I could tell you the one is Shostall, S-h-o-s-t-a-l-l, and the other one is Snelling.

It seems to me when you give a job on consulting, you give it to one.

Mr. WILLIAMS. I am not familiar with Mr. Snelling in conjunction with Transportation, Mr. Snelling with Health.

Mr. MINISH. This has it marked "subway."

Mr. WILLIAMS. Mr. Snelling is with Health. I don't know how the fiscal records show it.

Mr. McCain is here to help me out with respect to that kind of thing henceforth and forevermore but I can tell you Mr. Snelling works in and Lee Shostall works in Transportation.

Mr. STEPHENS. As consultants?

Mr. WILLIAMS. As consultants, right.

Mr. RODINO. Mr. Williams, in this respect, I am not aware, these are consultants to what, to plan a subway for the city of Newark?

Mr. WILLIAMS. As you know, we have a subway system here, very short line, it is underfinanced, having fiscal problems. What we did was to arrange a grant with the Department of Transportation working with Tri-State, Tri-State Regional Planning Agency and using Model Cities as the local share to get a \$250,000 planning grant to plan a subway.

We were told that this is a very important first step in terms of the DOT people actual taking fiscal interest, a hardware interest in Newark by providing the kind of transportation that the people need.

Mr. STEPHENS. Is that part of the mass transit system?

Mr. WILLIAMS. Yes; this is an urban mass transit authority grant to plan the authority with and it would go up Grand Avenue and hook on to Broad Avenue. The link between Springfield Avenue could later be enlarged upon and we can have an entire network of underground travel facilities in Newark specifically focusing upon the airport.

The Governor has prevailed upon the port authority to have them bring the path lines from Newark, I am sorry, from New York to Newark, but under the original plans this would really bypass the heart of the town and go directly to the airport. This is to bring the Newark commuters out there. This is to dovetail that into an urban

mass transit system so we can get the system up Springfield Avenue and Irvington and bring them to the job as well as help them get to New York.

Mr. McCAIN. Congressman Minish, if I may please address you. I spoke to Mr. Shapiro and he is the city chief planner. I am not sure about those two consultants. One thing I am sure about though, when I spoke to Mr. Shapiro, he informed me that for the short-term subway, something that we can do within the next 2 or 3 years, on a subway up and down Springfield Avenue tying into our present subway system that runs up to Bloomfield Avenue almost to Mount Claire, at the same time he also informed me that he has on the board a long-term subway plan whereby our subway will be up and down Broad Street also and underneath.

Mr. MINISH. A subway under Broad Street?

Mr. McCAIN. Yes. He told me within the next 10 or 12 years this is the plan.

Now, I would imagine, just speculating, I would imagine that the Broad Street subway, the long-term plans, would be by one individual.

I would also imagine that the short-term plans, which he means within the next 5 years, would be held by another individual and at the same time that particular individual as he brought out the subway from the station to go to the airport, would be held by the same individual, so you are talking about short-term immediate plans and you are also talking about long-term plans.

Mr. WILLIAMS. Conceptionally I think that is the way it could be broken down but I do recognize those names. I know for a fact Mr. Snelling works in the Health, he is personally known to me, and Mr. Shostall works in Transportation. If there is some other consultants there that are involved with Transportation, I think we can clear up the whole matter tomorrow when you see our plans. We can introduce some of them to you.

Mr. MINISH. Maybe it is a misprint here.

Who is Betty Woody?

Mr. WILLIAMS. Betty Woody is a young lady who aided us in another of our transportation efforts. She is our highway planner. Now as such she was involved with the negotiations that were carried on to replan a system of highways that was coming through Newark.

As you know, Route 75, the midtown connectors, was planned and it was announced in the newspaper about 6 months ago. It was wiped off the books. That was because of our efforts, and if it had not been for Miss Woody presenting an alternate plan, which is the upgraded McArthur Highway, Route 21, and integrated all of the highway in a mass transit dash highway through us we would not have been so able to do that.

Mr. MINISH. Couldn't you have used the facility of the city and saved \$25,000 or the facility of the State? It is a State highway.

Mr. WILLIAMS. We don't have people on the city payroll who understand highway planning to the extent that they can come up with an alternate plan.

Mr. MINISH. Are you suggesting that the people in the State highway department don't understand highway planning on their own thoroughfares?

Mr. WILLIAMS. I think what you have to do is consider the interests involved. It was not in their interests to plan another highway, they thought the one they had planned was all right.

Mr. MINISH. What do you recommend, another highway rather than Route 17?

Mr. WILLIAMS. We convinced them and the historic moment, we convinced them they are (a) wrong and (b) they ought to accept our plans. We could not have done that if we had not had a sophisticated highway planner to do this and she is one of the best in the country. So we got her, brought her in. Consultants who have that kind of skill and talent cost money. She convinced them and we convinced them that the McArthur Highway could be upgraded, Route 21, and in fact we need not take thousands and thousands of dollars of acreage away in the city of Newark, we need not relocate the 10,000 or 12,000 people across along the corridor, we can reuse the land, we can use that for something else. The whole history behind this was never brought to the surface, and I am very glad to have an opportunity for the record to show how we did that but we could not have done that without Miss Woody.

Mr. MINISH. You feel that you have made progress in terms of the audit report which was critical and you feel that everything is in good order now?

Mr. WILLIAMS. I think everything is at a point where I can say I am sufficiently impressed with the efforts of my staff and my new staff that we are at a point where we can begin turning around some of the disorders, if you will, I think that there are some things that will take time to correct. For instance, we have to sort through the travel expenses and find out what the man put in the wrong pile, to be quite frank, and that is going to take some time. We have to go through it voucher by voucher that he consider travel and reclassify that.

Mr. MINISH. Then I would assume what you said earlier, you have no objection, as was recommended, in fact you yourself requested it, that the General Accounting Office could look at what you are doing now.

Mr. WILLIAMS. I have no problem with that. I think it would be very helpful to them to see some of the things that have been identified and to listen to what we have to say in terms of what we are going to do to improve the matter.

I do have more specific things I would like to go through in terms of some of the local expenses.

Mr. STEPHENS. Let me ask you, Mr. Williams, along with that, you have undertaken some accounting methods to have a real check on these before a check is issued; is that what I understand you to mean?

Mr. WILLIAMS. Let me give you a specific example with respect to travel. No cash advancements are now allowed because we had trouble with that quite frankly. You get people going to take advantage of a good thing. I have told all of my staff people and all citizens that travel by day they had to have in what they said they were going to produce and or they don't get paid. I am told by my deputy director that those reports and the documentation did in fact get in an affidavit where receipts were lost and, for instance, we called the airplane company and said did the man travel on the day he said he traveled and

they send that kind of documentation. If the GAO wants to check on that progress, I would be very happy to let you see. I am got going to promise 100 percent compliance but to the extent there are staff people who haven't complied, their pay will get docked.

Mr. STEPHENS. Do Model Cities people travel to Puerto Rico?

Mr. WILLIAMS. Model Cities, yes; staff members and citizens have traveled to all places within the continental United States. There is a Model City program, as you know, in San Juan, it is a member of the league. I personally have been there with the Model Cities program because I am regional chairman. We had a conference there on industrialized housing because you had one of the most outstanding systems there known as the Shelley system. We visited Mr. Shelley's plant and one or two others that did not look quite as good, but basically we were interested. They have come to Newark and New York for several occasions and we felt it was time to go there and we did have a conference there.

I would be happy to show you the prints and brochures and things that came out of the particular conference because it was very helpful in focusing our attention on what industrialized systems could be used in the region. We still have it, it is not dead yet, it is kind of inactive. We are trying to regionalize our industrialized housing program. We said here is a model cities here, can you get your hand on some land, here is one over here, if we can get six or seven out of the eight or nine members in the region to come up with 2 to 3 acres of land it makes it that much more feasible to attract industrialized housing developments because the units are maximized. Because of different climate conditions and labor controls and all that we had some problem in rationalizing all of the mess that was involved in that kind of planning. We were unable to get a specific grant from HUD under Mr. Jungherr to really go through with this process. So basically all of the works has fallen upon my city planning department to try to pull the pieces together and I hope they will be coming up with some answers to me so I can go back to the region and report.

Mr. STEPHENS. What do you mean by industrialized housing?

Mr. WILLIAMS. Operation breakthrough type housing. We wanted to rely upon the 21 breakthrough systems to the extent possible because we wanted to get some of the specs set aside of the 236 money. We have been introduced more recently and hence our interests in Shelley and some of the other systems. We have been introduced more recently to some of the nonbreakthrough systems which quite frankly look more interesting than the breakthrough developers so we have had some experience with some infill projects in Boston. We had people to go up there and look at that. We have been talking with the State and have been in touch with some people that they made us abreast of to perhaps use some of this nonurban renewal land owned on an infill basis using industrialized housing methods to bring this situation up to a point where we can get some houses from people. HDRC, Housing Development Corp., the first one is rehab, second is reservoir site, a major new development, and third an infill housing system which I want you to see tomorrow because it involves extensive land use preparation we are doing again through city planning.

Mr. MINISH. These records show Fleming Jones controller. He is no longer with you?

Mr. WILLIAMS. He has moved on to bigger and better things.

Mr. MINISH. He left on his own volition?

Mr. WILLIAMS. He hasn't left, he works with the department of finance. Mr. Lee McCain is my Controller now.

Mr. MINISH. It was pointed out here this morning that you attempted to buy a printing press in parts. Is that true,

Mr. WILLIAMS. I have that in here and I would like to read that for the record.

Mr. MINISH. Just tell me whether you did or not, that is all.

Mr. WILLIAMS. The printing press was not purchased. It has not been delivered.

Mr. MINISH. Were checks sent to the——

Mr. WILLIAMS. No checks to my knowledge over my signature have been sent to those people because the mayor's communication office is interested in the whole idea of a printing press because of the paper that is being produced, et cetera, and they want to cut down on the cost there so the whole operation was slowed down. The reason it was bought in parts is because the man we contacted did not have the particular parts I am told at the time when we wanted them all so they had to be bought in sequence. The idea would be we would put them together after we got them but there was no attempt made to hide anything by ordering a printing press in parts. But it comes in parts you have to construct it. We bought it when we could buy it.

Mr. MINISH. When you first started you said you did not send any checks. The information that is here is that checks were sent to the people that were sending you the press and they were returned.

Mr. WILLIAMS. Well, let me put it this way. No money had been received by the people because we have a new order in for another press.

Mr. MINISH. Mr. Williams, seriously you wouldn't buy a printing press in parts and pay \$2,500 in order to purchase it without bid. You wouldn't do that?

Mr. WILLIAMS. Let me explain that whole bidding procedure to you. We have a letter from Judge Walls which because of the nature of Federal money, Judge Walls is the corporation counsel which made city policy in Newark. Let me rephrase that. Which gave the CDA in Newark an exception with respect to normal city purchasing processes any way because in his opinion at first Federal money was not city money in the way it was defined by the local public contracts law so we had really no need to do that. He resigned that letter because in terms of his own investigation he found that this was not so.

Now I have two letters. I have two letters, one dated November 1971 and the other dated August 1972. Since the time that he said in August 1972 that we have to comply with the local public contract's law to the letter we have been doing that.

Mr. MINISH. And purchasing a printing press in parts?

Mr. WILLIAMS. No, we have not. That was before August 1, 1972, so I am saying there was really no need to duck and dodge the issue. Had the issue been bidding we would have had to deal with that on its face. There was no attempt to go around the bidding process.

Mr. MINISH. Why did you send three checks? Why didn't you send one check and get it over with?

Mr. WILLIAMS. I am not familiar with how it was sent out of fiscal.

Mr. MINISH. Will you let us know, please.

Mr. WILLIAMS. I will certainly look into it.

There were some other local matters here that I would also like to comment upon. One that really needs some attention since we have members of the press here.

It's been alleged that certain members of the CDA including myself, spent Federal money for whisky. Again this can be explained as a product of sloppy bookkeeping by former CDA controller Fleming Jones. All local expenses for dinner meals and conferences involving citizens, out-of-town guests, should have been billed to my city fund entitled "Meals and entertainment." These meals and beverages are allowable expenses in accordance with city rules whereas HUD specifically disallows them. Until recently, I assumed that these bookkeeping matters were being properly taken care of. When my attention was called to it, I am now in the process of doing what I can. Let me go over that for your own—

Mr. MINISH. Let me suggest this before you go any further.

Mr. WILLIAMS. All right.

Mr. MINISH. Mr. Jones, according to the memorandums that were sent to the members of the committee, has requested from some of the employees for reimbursement and at the time that HUD printed the audit the money still wasn't returned.

Mr. WILLIAMS. I can't explain why Mr. Jones did that. It may have to do with the fact—

Mr. MINISH. That would be sloppy bookkeeping?

Mr. WILLIAMS. It may have to do with the fact that Mr. Jones now works for Mr. Jungherr, who is director of city finance, and at Mr. Jungherr's insistence the money was asked after it became apparent that the entries had been made wrongfully.

Now, what I am saying is I have a special budget as a department head, I have a certain amount of money that I get from city council called meals and official entertainment. If I go to the restaurant and I have got some guests and I am having dinner and we order a meal or a couple of drinks beforehand, I submit the bill and I expect my bookkeeper to put it on that line. Now if he did not do it, I now stand accused of spending HUD money illegally and I know they are there, the HUD auditors called it to my attention, your auditors called it to my attention, but the fact is that they are now in the record and on the books and they were charged to the wrong account. What can I do about that? I can only go back and attempt to make sure that the proper entry is made. In certain cases this can be done and certain cases it can't be done because we are dealing with 1971 funds and the city doesn't allow you to go back. In 1972 cases I could do that. I can have that corrected but I cannot go back into 1971 and make those corrections. The only thing I can do is attempt to go to the people involved including myself and try to get some of the money back. I will be certainly glad to take that upon myself to clear the record but I do want the record to show I have done nothing illegal in terms of HUD funds because it is in black and white.

HUD says you can't have liquor. If you can't have liquor there are no ifs and buts. As an intelligent person, I have too much at stake to spend \$2 or \$3 on a glass of liquor and take a chance of somebody accusing me of misspending money. I am saying that because I want you to understand had I known that, this would not have happened and all I can do is try to correct it right now.

The Downtowner conference is another kind of activity. I won't read this one, I will just explain it, because I want to go into it in detail.

It was incorrectly asserted that liquor was spent at this conference, because I made sure that all liquor expenditures for this one, because of the nature of it, were covered by anybody who drank it. So I think, Mr. Prins can find if he goes through the record that personal checks were used to pay for any liquor bills that were incurred. That should be cleared up right from the start. Because there was an implication that we had a party and I want to clear that up. We had a deadline, we were trying to prepare a document which would explain Newark's CDA story not only in terms of results as you saw on the TV but in terms of the process that we keep alluding to. Model Cities is supposed to mean demonstration. What does that mean? Model Cities is supposed to mean coordination of planned Model Cities, means dovetailing your Model Cities dollars with your categorical. What does that mean?

We wanted to explain in a definitive fashion how we did it in Newark because we think we became experts in the area of grantsmanship. By the time that document was printed, and here it is, 100 pages, which was produced as a result of that slugfest, I might say, which I will also enter into the record if you would like, the Model Cities CDA, I should say Community Development Administration, had been successful in raising \$19 million minus the \$5.6 million that we already have, making it \$14 million, and that is not including the amount of dollars that you can add on for the project rehab activities.

Now, project rehab, if you figure \$20,000 a unit for a total cost, that may be a little bit high the way FHA is administering it now, you can say another \$30 to \$40 million mortgage money all total CDA up to that time had gained for the city of Newark approximately \$70 million of money that it would ordinarily not have had. We wanted to tell that story how did we do it. We had a deadline. We wanted a document printed. I knew people were going to have to virtually work overnight in doing it and so staff people, including myself, worked 3 to 4 days in a row designing this document, talking it, retalking it, rethinking it, typing it, and we produced it and here it is, 100 pages. We could not have done that in an office because we did not have the facilities to keep people there and feed them for that particular kind of thing so it was a conference, it was not a party, it was a conference, and HUD does allow for conferences, HUD allows for conferences for staff. This was a staff conference and this is the output of it and I would like for people to see this and have it and weigh it.

Mr. STEPHENS. Would you like for us to have that as part of the record?

Mr. WILLIAMS. I would like for you to have that as part of the record.

(The document referred to is retained in the subcommittee's file.)

Mr. MINISH. Mr. Williams, relating to the Gateway, in the interest of saving time, we have a statement here that was signed by Mr. Jungherr, director of finance.

Mr. WILLIAMS. Jungherr.

Mr. MINISH. Well, you look it over with Mr. Prins and then you may want to change your testimony. Fair enough?

Mr. WILLIAMS. I would like to look at it. I think I know the document you are referring to but I will look at it.

Mr. STEPHENS. Let's recess until 20 minutes after 4.

(At 4:10 p.m. a recess was taken.)

Mr. STEPHENS. Ladies and gentlemen we will go back into session for continuation of the testimony of Mr. Williams. If you would cover the highlights of the things you would like to cover, you may proceed.

Mr. Minish.

Mr. MINISH. What was the result of the conference?

Mr. WILLIAMS. I am calling your attention to a memorandum I sent to Mr. Jungherr on January 27 and call your attention to the fact that he wrote me back on February 15. The sequence is very important because in my first submission to him I told him that "the beverage expense shall be assumed by the parties involved except those small bills which amount to orders of coffee, teas, et cetera, in other words, nonalcoholic."

On February 15, he writes Fleming and tells him to do the same thing that I had volunteered to do anyway, which I think is very, very important.

Now, I am told by Mr. Prins that he did not find evidence that such a check existed. The check was written and we are going to check the records to get the canceled check to put it at your disposal and I can only tell you that I gave the check to Fleming Jones. Beyond that I cannot tell you what happened to that check. But again I just want to remind you that if I put in writing that I am going to have somebody do something, it is to my interest to go through with that. At that point, it certainly would make me look foolish otherwise and a check for \$48 with as much as is at stake I think it would be incumbent upon me to so deliver. So I am telling you for a fact that I did deliver that check, I don't know what happened to it after I delivered it, but I will look into it.

Mr. MINISH. Would you agree with me the record did not show what you said earlier?

Mr. WILLIAMS. I would agree with you the record shows that I said I was going to pay for the order and I told you that I paid for it.

Mr. MINISH. But there is nothing in the material that we have to show that. All right, fine.

Mr. STEPHENS. If you do locate that evidence, if you would submit it, I would appreciate it, the check.

Mr. WILLIAMS. Yes, sir.

The other thing I wanted to talk about was the Ebony Manner conference. The Ebony Manner conferences are criticized from the standpoint from the amount of money spent. Mr. Prins fails to note that over 600 people had three meals at our initial Model Cities citizen participation conference in 1971. This documentation was presented including a list of the names of the participants and all addresses, documentation he failed to mention in his indictment of our attempts to involve citizens in the planning process. I have here for your information not only the list of names of the people who were there but also the conference agenda which shows and sets forth quite clearly what we did during that period of time. It shows you who was involved in it and what we tried to achieve.

Now here are lists of names of people, people who came in and were registered at the door. If you think the names don't exist, I would suggest that someone go and knock on the doors of those people and ask them in fact if they did come to the conference. We changed the order this time. Instead of having people registered we let them actually sign in, I believe. So that we had another conference in 1972 similar to this. We are not addressing ourselves to that at this time but I mention that from the standpoint of the record because we don't think we did anything wrong in having a conference so that some hundreds of people can come in and participate in Model Cities.

Mr. MINISH. Mr. Williams—

Mr. STEPHENS. Would you like to submit that also for the record or is that your record?

Mr. WILLIAMS. This is ours. This is the last copy we have but we gave a whole lot of these to HUD. HUD has this.

Mr. MINISH. Mr. Prins was quoting from finding eight in the auditors report.

Mr. WILLIAMS. We gave that to HUD.

Mr. MINISH. It was HUD, it wasn't Mr. Prins, he was quoting from HUD.

Mr. WILLIAMS. I stand corrected.

Mr. MINISH. Why was it under the category of consumable supplies, which is interesting.

Mr. WILLIAMS. That is the fiscal department. I certainly don't think you can hold me responsible for how he put it in his book. I can't be the fiscal man and director too. Until today I did not know it was solicited because I don't think that is in the auditor's report.

Mr. MINISH. Yes, it is.

Mr. WILLIAMS. I don't read that in the auditor's report. I have no idea why they would put it that—

Mr. MINISH. You agree it doesn't belong there.

Mr. WILLIAMS. I agree it is a contract duly executed with merchants in town to provide a service.

Just a couple more things: the question of automobiles came up and you wanted to know generally why in some cases we rented and in some cases we purchased. I want to tell you a sad story about automobile purchase. We had three vehicles which were new, they were Chevrolets, and one of them was assigned to me for my business use. That Chevrolet most recently, just about a couple of days ago, blew up, the carburetor blew up. Now, it is a whole series of repairs, costly repairs to that particular car, so much so that my travel was incapacitated, we attempted to keep the car, we attempted to restore it, but every time that happened I had to go rent a car, so I kept the car I rented after a certain point. That car that I now rent is utilized by not only myself but other members of my staff who need to use it as a day-to-day car and, of course, the car is available. I don't know what we are going to do with the three Chevrolets. We would like to sell them. I was advised this would take a resolution from council and so we just decided we would make the best use of what we had, get as much mileage out of them as we could. That is case No. 1.

Case No. 2 involves an attempt to purchase some used vehicles thinking that it would be more economical to do that and to use the cars as

much as possible realizing they were in fact used vehicles. This was done by the community organization division because they used the cars probably more than any other department or division in CDA except the land use study group which now uses the Chevrolet I was telling you about as well as my own personal car whenever they need it. This particular set of cars has also fallen apart so we are in a jam.

Mr. STEPHENS. When did you get those second hand ones?

Mr. WILLIAMS. The second hand ones were bought before the new ones, 1971.

Mr. MINISH. When were the new ones purchased?

Mr. WILLIAMS. 1971.

Mr. MINISH. In how many months did you say they fell apart?

Mr. WILLIAMS. The one that I had fell apart the day I had it. It didn't run.

Mr. MINISH. Did you take it back—you are protected there.

Mr. WILLIAMS. We were protected up to a point but when you keep taking a car back and forth to a dealer like that and he keeps telling you I am going to pick it up and make some attempt to fix it, you soon lose faith in the dealer and we began taking it to the city repairman and have documentation to show the number of bills that have been incurred on this green Chevrolet that I had.

Mr. MINISH. You say you purchased a car and on the day you received the car it fell apart?

Mr. WILLIAMS. I said it did not work. The carburetor blew up a few days ago.

Mr. MINISH. Where did you purchase that?

Mr. WILLIAMS. Potamkin Chevrolet.

Mr. MINISH. You say you lost interest and you want there to purchase used cars?

Mr. WILLIAMS. We did not go to Potamkin to purchase used cars, the used cars were purchased before the new one and from somebody else, I am not sure who the dealer was for the used cars.

Mr. MINISH. I would think if I purchased a car, and it is my money, and it falls apart in a week or a month, and it is still under warranty, that dealer is going to take care of it, it is not the responsibility of the city to take care of it, if we were paid for it.

Mr. WILLIAMS. The consumer protection law in the State of New Jersey requires that you offer a product, a faulty product for repair. Now, if it is repaired then you have no course of action. In other words, you can't get your money back or you can't ask for a new vehicle, they "repair" what we had but a series of other events took place so that we could not find fault per se to require a new vehicle but we were still not satisfied with the vehicles themselves.

Mr. MINISH. If that was your car and if you purchased it, you would be down there as Junius Williams is capable of doing, telling them where to get off.

Mr. WILLIAMS. I did before I got the car because they were 6 months late in bringing it.

Mr. MINISH. You got the car and it fell apart and you did nothing?

Mr. WILLIAMS. Three months, I am sorry.

Mr. MINISH. When you finally received the car and it fell apart, you did nothing?

Mr. WILLIAMS. It is very difficult, Congressman, to busy yourself with a car when you are trying to raise money for the mayor, you are trying to plan programs; you have citizens who want this, that, and the other; you have Federal officials who want reports and want to know why the money is not being spent; you have all sorts of other difficulties. You attempt to try to find the most rapid solution. I will agree perhaps I was not insistent enough personally; perhaps my staff was not insistent enough.

Mr. MINISH. I agree with you.

Mr. WILLIAMS. But at the time, I could not bother with that car; I took the lowest possible course of remedy. The final thing is the allegation that the money was not being used properly and that too much was spent on administration. This was coming from the opinion of an unnamed city official.

Well, I would like to talk to the unnamed city official to start with, and I don't know if that is possible or not, but I certainly would think since I stand accused, it would be incumbent upon my accuser to stand forth; I believe that is the American way. But I do want to just document a few things based on the \$19 million that I maintain has resulted from our working efforts. We have spent 12 percent of that money on administrative costs. This can be documented also.

This is compared with I believe probably a 30 to 40-percent normal for Model City agencies around the country.

Now, we took that \$19 million, and we did not include project rehab, even though we could say that administratively we were responsible for that. We said "no." Let's just look at the \$19 million figure. That is two Model Cities grants; a planned variation grant; several categorical grants from DOT, HUD, HEW, et cetera; several State grants; and we said OK, what did we spend administratively to produce this, and it came up to be 12 percent.

Now, I would match that against any city in the country because I don't think it can be both.

In terms of the general statement, the money is not being spent properly; I think the film we showed today will give you an idea of how we are developing our time and the taxpayers' money, and there are several thousand people out there in the community who I think would back up my claim we are doing a damn good job.

Mr. MINISH. That is my interest, so you will understand my position, the several thousand people in the community. I am only interested in seeing that they get the full benefit of what the legislation was intended to provide. That is the reason that this committee has been traveling around the country.

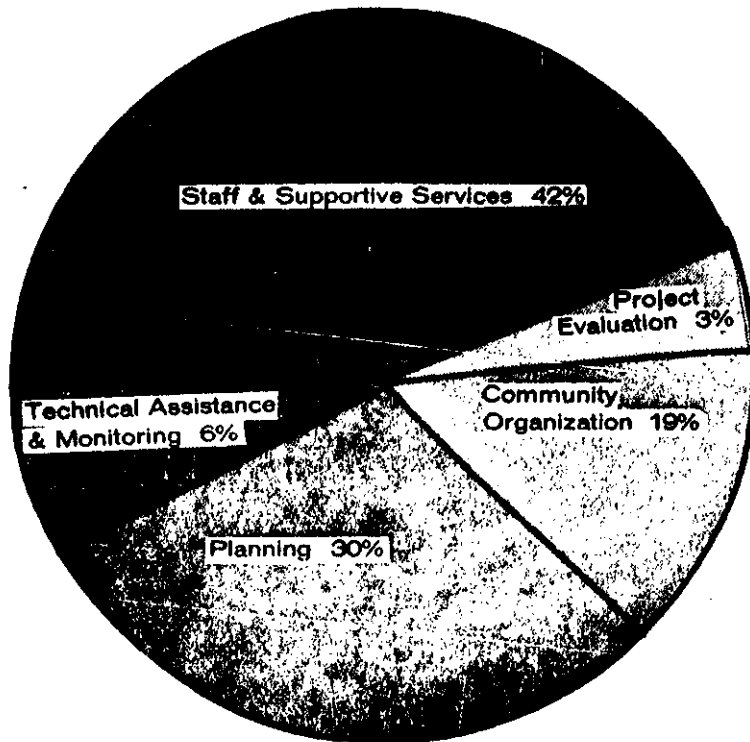
Mr. WILLIAMS. Yes, sir. I did want to demonstrate that to you. As a matter of fact, this was back in April; and this was when we knew that we were—I am sorry, not in April, some time last year when we knew we were in fact going to receive the planned variation money which we had gone to Washington and lobbied for; and this shows you how the money is broken down, and this shows the program-administering cost. I said 12 percent; I meant 16 percent. This will give you an idea how the money was spent. Actually, the project funds 84 percent of the money that we generated, and again that is not including the administration of Project Rehab which you can imagine is exten-

sive, but we just absorbed that and said nothing about it. We should have been able to add a few percentage points to that.

I would like to enter into the record four charts to show you not only the project administration has spent program administration money, but I would also like this to show the work effort in terms of grantsmanship, because we went way beyond the Model City area, we went way beyond the Model Cities concept applied to the area and thought citywide and raised money citywide, so this excluding project rehab is what we can say we did during that period of time.

Mr. STEPHENS. Without objection, it is ordered into the record.
(The charts referred to follow:)

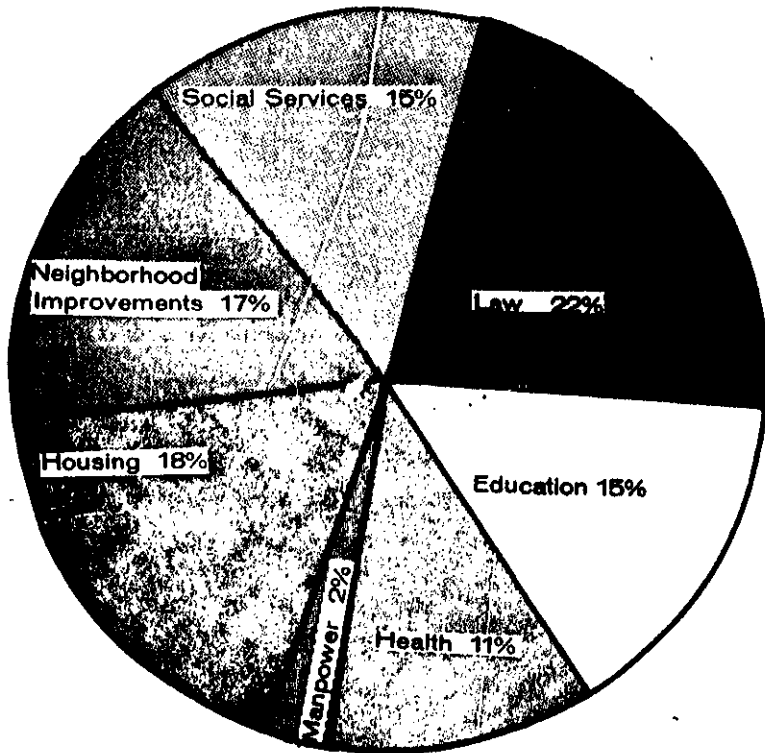
Program Administration Costs By Function



Staff & Supportive Services	\$ 1,299,000
Technical Assistance & Monitoring	198,000
Planning	886,000
Community Organization	592,000
Project Evaluation	98,000
Total	\$ 3,073,000

CHART A

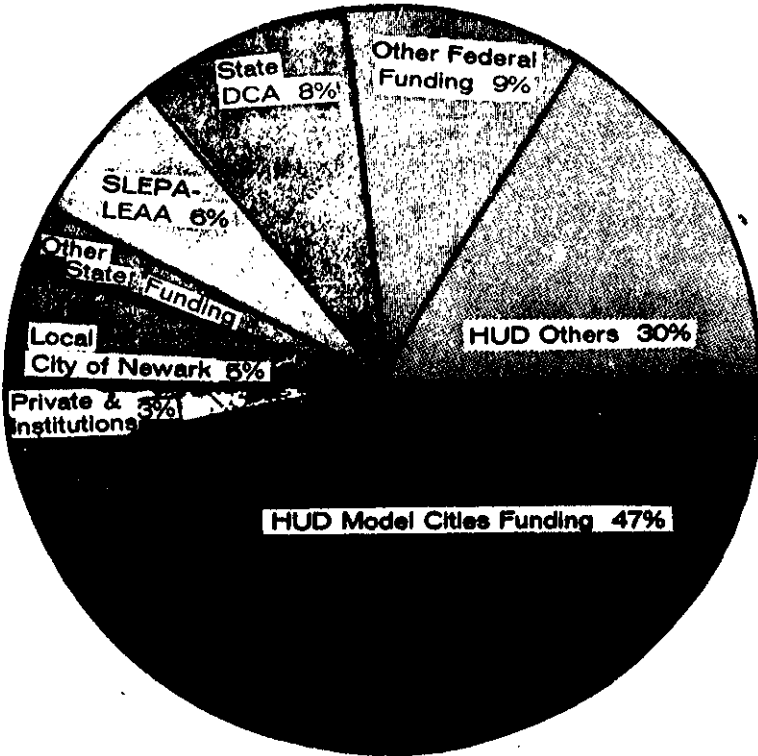
Projects Funds By Program Area



Law	\$ 3,728,000
Social Services	2,491,000
Neighborhood Improvements	2,877,000
Housing	3,052,000
Manpower	376,000
Health	1,608,000
Education	2,430,000
Economic Development	—
Total	\$ 16,562,000

CHART B

Community Development Administration Dollars Per Cent Breakdown By Funding Source



HUD Model Cities	\$	9,235,000
HUD-Other		3,892,000
Federal-Other		1,989,000
DCA		1,491,000
SLEPA-LEAA		1,200,000
Other State Funding		296,000
Local City of Newark		1,014,000
Other Private & Institution		518,000
Total	\$	19,635,000

CHART C

Community Development Administration Funds





	Program Administration Costs	\$ 3,073,000
	Project Funds Generated	16,562,000
	Total	<hr/> 19,635,000

CHART D

Mr. STEPHENS. I have no further comments unless there are further questions.

Mr. MINISH. I don't have any further questions other than the request I made of you some time ago and we have made in other Model Cities, that the committee receive a biographical sketch of the people you hire.

Mr. STEPHENS. How many people are employed under your Model Cities program?

Mr. WILLIAMS. I would say within the whole Model Cities umbrella, let's put it that way, approximately 300 people. I have to think about that because some people we only fund and they are out there. Some people are my direct responsibility, some people I inherited, some people I provide some service for like fiscal. We take care of a whole lot of people bookwise. One of the problems we also have, so all in all about 300.

Mr. MINISH. We are only talking about people who work for your organization from \$8,000 up. We are not talking about clerks.

Mr. WILLIAMS. You mean the administrative staff?

Mr. MINISH. Yes. I talked to you about this, and you said you would send it, and apparently it slipped your mind.

Mr. WILLIAMS. I will send it.

Mr. STEPHENS. We appreciate your giving us so much information and the statement that you said you would supply for the record; if you will just send them directly to the Banking and Currency Committee, for the ad hoc Housing Subcommittee's attention, we will appreciate it.

Mr. WILLIAMS. All right. I appreciate being given the opportunity to show and explain.

Mr. STEPHENS. Yes, I hope you feel like you have had plenty of time to do so, and now the statement that you have.

Mr. WILLIAMS. I am going to make the spelling corrections and put it in the record.

Mr. STEPHENS. Give it to the reporter. That will be fine.

Mr. WILLIAMS. All right.

(The following response was submitted for the record by Mr. Williams in regard to specific allegations made by Curtis A. Prins, Chief Investigator, House Banking Committee:)

RESPONSE BY JUNIUS W. WILLIAMS TO SPECIFIC ALLEGATIONS MADE BY CURTIS A. PRINS, CHIEF INVESTIGATOR OF THE HOUSE BANKING AND CURRENCY COMMITTEE ON SEPTEMBER 8, 1972

Allegation No. 1: Weak operating procedures; programs not meeting needs; inability to match purpose for expenses with vouchers.

Answer: The accusations made by Mr. Prins are unfounded and cannot be met with evidence to support the broad inferences that can be drawn from such statements. Upon the advent of the Gibson Administration, the Model Cities Program was a few desks with a few people at 39 Branford Place with virtually no operating procedures whatsoever. We have devised and now operate a monthly reporting system which focuses on problems, accomplishments and can show in a detailed fashion quantitatively the extent to which programs are meeting goals defined by the administration and the community. Had Mr. Prins taken time to understand this procedure, he would have seen that all 31 projects of the Model Cities Program now report regularly under this system.

All programs are also placed on a schedule of spending called "Planalog" and all budgeting is done in accordance with a procedure known as "time phase budgeting." We are attempting to introduce sophisticated management techniques in

an agency designed to recruit and train professional and lay people from the Model Neighborhood Area, and as such, most of the employees in the Model Cities complex do in fact reside in the Model Neighborhood Area.

Obviously, there have been problems with the introduction of so many different kinds of funds from various agencies throughout the Federal bureaucracy. Much training was necessary and is necessary for those people entrusted with maintaining and operating tight fiscal controls. To the extent that specific questions to vouchers which have been processed are not readily accessible to a visiting official who spent one day in our Fiscal Department, it is probably because our techniques have not quite evolved to the point of Wall Street efficiency that many people apparently want to use a standard of judgement. Had Mr. Prins specific questions about vouchers, he could have asked me and we would have taken the time to locate answers. I assure you that the answers are in fact present, stating in an above board fashion that we have nothing to hide in this agency. Recently, Mr. Lee McCain, a former employee of HUD, has taken over the onerous task of managing the fiscal and budgeting requirements of 31 Model Cities, HEW, SLEPA, Department of Labor and Department of Transportation Projects, all requiring different manners of bookkeeping and reports. We are sure that progress will be made toward that high standard of excellence sought by all within the Gibson Administration and well-meaning people from without.

Allegation No. 2: Wright Way Riding Stable contract.

I am appalled that Mr. Prins would go out of his way to find fault with one of the few evidences of minority entrepreneurship that exists in the City of Newark. Within the Model Cities Program we have as a specific goal to seek out and support these kinds of ventures when it can be shown that the business people involved can produce services for the people of Newark. Such is the case with the Wright Way Riding Stable, where for two years now thousands of ghetto children have known the pleasure of riding horses, where before there was no such opportunity. It should be noted that Mr. Prins found no difficulty with the contract procedure by which we sought to bring this service to the children, but concerned himself with how many teenagers were available at the time he happened to come upon the stable. It seems apparent that Mr. Prins was not interested in how many children rode horses, but whether the horse stable was listed in the yellow pages.

Allegation No. 3: Travel.

Mr. Prins apparently focused on some \$33,000 of expenditures in the First Action Year listed as travel. I do not know which specific items he had problems with, but it is an inaccuracy to throw the word travel out without explaining what this means in the CDA context. Under the umbrella of travel must be considered the local expenses of hundreds of paraprofessional people who work in our projects and must spend time in the field going about their daily activities. Examples would be the 50 people of the Community Organization Division who have at no time gone out of the City of Newark, but in fact do incur travel expenses as they talk to neighborhood residents; 102 police officers in Public Safety Personnel who must travel throughout the Model Neighborhood Area in vehicles provided for this purpose and on foot; 15 people in Consumer Affairs who must travel the streets of Newark in an effort to educate residents of proper consumer buying habits.

Also included generically under the title of travel is car rental expenditures for first action year projects and administration. In some cases we were able to afford enough money within budgets so that car purchases could be made, but in many instances automobiles had to be rented until purchasing could be made, using proper City procedures, and still in other cases, budgetary restrictions and the length of time allowed for the life of a project dictated that automobiles should be rented instead of purchased. During the First Action Year, \$5,387.28 was allocated for the rental of approximately ten or more vehicles.

Still another distinction needs to be made with respect to travel since \$10,000 to \$15,000 was spent in the First Action Year by the Model Neighborhood Council which is the participating citizens body of the Model Cities Program. By law we are required to involve the citizens in the Model Cities process. By HUD policy citizens are expected to have a budget independent of the Model Cities Administration. Fifty-two citizens chose to spend the money allocated for educa-

tional travel in and around the City of Newark, the immediate area (New York City and environs) and for long distance travel.

Further note should be made of the fact that certain projects themselves require large amounts of money for travel because of the nature of the program. An example is the Talent Search Program, which has aided in the placement of over 200 students in the Nation's colleges, and as such, arranges travel for large and small groups of high school students to visit these institutions. Several other local and intermediate transportation needs have been incurred by programs such as our Recreation Division for bus trips for parents and children to local events and to day camps. Another program which transports large numbers of youths to cultural events within the immediate area is the Youth Services Agency. All of these expenses come under the concept of travel.

It can be seen by anyone interested in understanding what travel is all about and what Model Cities is all about that it makes no sense to categorically throw out a figure such as \$33,000 without explaining just what this \$33,000 means. I am ashamed that the General Accounting Office uses such tactics. After examining the total record of Model Cities with respect to travel, it can be seen that our travel procedures were and are the most up-to-date in the City of Newark and as such, are being adopted by the Department of Finance for all City agencies, and that our travel in terms of dollars spent for local and long distance travel amounts to less than 2% of the total grant given to the City of Newark.

One specific trip needs mentioning, since there apparently was some misunderstanding about the 14 people who journeyed to Washington. The fiscal year was drawing to a close and in an effort to coordinate the travel of those people who had to make last minute funding appeals to various agencies, I insisted that all the travel that was necessary be done coinciding with the National Model Cities Directors Association Annual Conference. It can be seen in a report on this travel that many people not only attended educational sessions at this conference but visited the Department of Transportation, HEW, HUD and various Congressmen who would be influential in voting upon upcoming legislation necessary for the survival of Newark. Fourteen people did travel to Washington, but for different purposes. The double bill for Mr. Coggins can be explained by the fact that he was originally told by the Ramada Inn, formerly Hotel Sonesta, that there was no room available with the rest of the group. Unknowing to him, we prevailed upon the management to let us have this room since we were pre-paid and would have been liable for the room anyway. He had taken a room in another hotel, but upon our arrangements returned to the Sonesta. It can be seen that Mr. Coggins spent 4 days in the Sonesta, whereas his bill for the other hotel was but for one night.

Finally, it should be noted that many items were entered erroneously into the column known as travel by former CDA Comptroller, Fleming Jones. We are attempting, with Mr. McCain's help, to decipher these erroneous entries at the present time. However, it can be seen that the majority of the travel done by citizens and staff was done within the context of the law and most of it involved local travel.

Allegation No. 4: Local expenses

It has been alleged that certain members of the CDA, including myself, spent federal money for whiskey at local restaurants at various points of time. Again this can be explained as a product of sloppy bookkeeping by former CDA Comptroller, Fleming Jones. All local expenses for dinner, meals and conferences involving citizens, out of town guests, etc. should have been billed to my City fund entitled "Meals and Entertainment." These meals and beverages are allowable expenses in accordance with City rules, whereas HUD specifically disallows them. Until recently, I assumed that my comptroller knew enough about bookkeeping to record the entries in the proper column. Apparently, he did not.

The Downtowner Conference represents another bit of exciting gossip as alleged by Mr. Prins. This was an attempt by me to obtain in a marathon fashion the proper public relations document that would explain not only Model Cities in terms of specific projects, but in terms of process. We were attempting to meet a printing deadline for the 1971 National League of Cities Conference, at which time Newark was featured prominently and so I drove my staff both day and night in an effort to produce a document suitable for publication. We have in print the 100 page document known as the CDA Story as testimony to this night and day effort. Literally, typists and professionals were involved all

night in the preparation of this document and thus we could not use office space available because conditions were not conducive to this kind of effort. Mr. Prins is mistaken when he says that alcoholic beverages were involved because under my specific orders, any beverages consumed were paid for by the many participants in the session. The records will reflect this fact.

The Ebony Manor Conferences are criticized from the standpoint of the amount of money spent. Mr. Prins fails to note that over 600 people had three meals at this, our initial Model Cities Citizen Participation Conference in 1971. This documentation was made, including a list of names of participants and all addresses, documentation he failed to mention in his ringing indictment of our attempts to involve citizens in the planning process.

The printing press items present a problem of timing and process. It should be noted that the press has not been delivered since the item will come under the jurisdiction of the Mayor's Communication Department and in conjunction with their request, delivery has been slowed up. The parts were ordered simply because the entire press was not in stock when the original request was made. This was by no means an attempt to avoid any law or City Ordinance.

Finally, I should make mention of the matter of automobiles purchased by the CDA. It was mentioned earlier that in certain instances cars were leased, but in the case of the Community Organization Division, it was felt that so great was the travel involved, that it would be more economical if we purchased four used vehicles for the daily activities of people who had to stay constantly in the field, contacting and organizing citizens into the Model Cities Program. This is the first time in my experience that efforts designed to save money have been blasted by federal officials who supposedly are interested in economical and prudent expenditures of federal funds. As far as my own vehicle is concerned, I now lease a car, simply because the new Chevrolet purchased by the agency for my business use, in accordance with City bidding procedures, from Potamkin Chevrolet, has broken down several times, including recently an explosion of the carburetor. This can be documented by the Office Management Division, since several repair bills have been incurred.

Allegation No. 5: The money has not been used properly, and too much was spent on administration

We can document that only 16% of the \$19 million generated by the CDA, (not including 40-50 million of Project Rehab mortgages) has been spent on administration. This is far less than the 80-40% norm for Model Cities around the country.

It is indeed strange to hear an overnight visitor use the evidence of one official to substantiate his claim of improper use of money. Thousands of people in the city think otherwise, and would so state if asked. HUD has recently said that our Project Rehab (2500 units of rehabilitated homes) is the best in the country. We have been called the best in the country from the standpoint of developing the most interesting and sophisticated array of criminal justice programs (see Crime and Delinquency Literature, June 1972, Page 818).

I cannot see how the General Accounting Office can use the opinion of one unknown official against this kind of evidence.

Mr. STEPHENS. Thank you very much and thank you for bringing your staff officers here.

Mr. MINISH. Thank you.

Mr. WILLIAMS. Yes, sir.

Mr. STEPHENS. And now, we would like to talk with Mr. James Sweeney, the new HUD area office director. Mr. Sweeney, if you would come forward and if you have anybody with you, we would be glad to have them come up here with you.

Mr. Sweeney, we appreciate your being here all afternoon and waiting to come and meet with our committee. There are one or two things that we might be interested in that you can help us with, but from what I understand you have no prepared statement, and that is perfectly satisfactory, but would you rather make an introductory statement and then we can ask you some questions?

STATEMENT OF JAMES SWEENEY, HUD AREA DIRECTOR, NEWARK, N.J.; ACCOMPANIED BY ANTHONY GAMBALE AND GEORGE BEATON

Mr. SWEENEY. If I may be very brief in the interest of time. The Newark area office was part of the first stage of the HUD reorganization. It was formerly created in 1970, in September, but was really set up under one roof of the Gateway Building in January or February of 1971. So it is really a relatively young organization. It picked up parts of the responsibility for program administration from the Philadelphia regional office, from the New York regional office and from the Newark FHA insurance. Northern Jersey is being subjected to the necessity of going to all of these different places for the programs within the Department.

The Department has, I guess, some 80 different programs and while we don't administer all of them, at times it seems like there are even more than that.

We have direct operating responsibility to utilize the funds allocated to us by the regional office for all of the FHA insurance programs, assisted and nonassisted, multi family and single family, for low rent public housing, for the community development programs, including urban renewal and code enforcement and FACE program and the other programs for the metropolitan development programs such as open space and water and sewer and 701 planning assistance and so on.

Mr. STEPHENS. Your office is comparable to what we have in the Atlanta area?

Mr. SWEENEY. The Atlanta area office, that is right, it would be comparable to that.

The notable exception that I left out, of course, was Model Cities, which I guess as of August 1 started the process of being decentralized from the regional office to the Newark area office. With the exception of Newark and Paterson, we have the special planned variation status and the administrative responsibility for, those two cities remain in the regional office so they can work for the Federal regional councils.

We deal with about 50 housing authorities in the 12 northern counties of New Jersey. We deal with about 34 renewal agencies, there being only 12 more in the State of New Jersey, and one way or another have direct relationships with at least 250 separate communities.

Mr. STEPHENS. How many Model Cities programs?

Mr. SWEENEY. There are seven, I guess, in our area.

Mr. STEPHENS. Seven in this area?

Mr. SWEENEY. Seven.

Mr. STEPHENS. That would be what, if you don't mind telling me. Can you list those?

Mr. SWEENEY. Newark, East Orange, Paterson—

Mr. MINISH. Hoboken?

Mr. SWEENEY. Amboy, Hoboken, Plainfield, Jersey City.

Mr. STEPHENS. What was the last one?

Mr. MINISH. You don't have Trenton?

Mr. SWEENEY. We used to have Trenton and that was transferred down to Camden to make the workload more equitable.

I will try to answer your questions as fully as I can. It is a little difficult to know every detail on every one of these things but Mr. Beaton is the Assistant Regional Administrator for the community development and the Model Cities program, it is his direct responsibility.

Mr. Gambale is physically located in our office and is the lead fieldman for Model Cities for several communities but principally Newark.

Mr. STEPHENS. We have been interested in some of the developments so far as the 235 program is concerned. Have you had any of the problems that have occurred in some areas where you have had people come in and buy a home and rehabilitate it or work it into such a fashion and then sell it at a higher price after inspections have been made to increase the price. Have you had any of that in your area here?

Mr. SWEENEY. We have had an unfortunate 235 experience that is not unlike that that I am sure you have come across in other parts of the country. As a matter of fact, for, I guess, a period of at least 6 months, beginning during the last half of the last calendar year we actually did not have the authority to utilize the program.

Mr. STEPHENS. At all?

Mr. SWEENEY. That is right.

Mr. STEPHENS. Was that based upon the fact——

Mr. SWEENEY. That was based on the problems that had been uncovered, the abuses that had occurred; yes, sir. A number of corrective actions were instituted, precautions taken, some regulations from Washington, some which we took within our own offices, we made appeals to the regional office to reinstitute the program so we would make it viable in this area and it is now again operable although the demand for it at the present time is extremely small.

Mr. STEPHENS. Is the 236 program very much the same thing as far as any delay or postponement of——

Mr. SWEENEY. No; the 236 program is not involved in that sense.

Mr. STEPHENS. With the 235 housing problems with new housing?

Mr. SWEENEY. No, sir; because of the cost limitations on 235 in this section of the country it is very, very difficult to build new 235 housing. The profit margin is extremely thin. Typically it would be constructed in the inner city areas where problems of vandalism and the like might make it a little more difficult to build so there is very little being built. There is some in Plainfield. I believe Carteret is planning some in their urban renewal project and this is about it.

Mr. STEPHENS. Have you had whole areas develop where you would have 200 235's?

Mr. SWEENEY. Not in this part of the State, not new 235.

Mr. STEPHENS. The first 235 project in the United States was developed in my hometown, I won't take any of the credit for it at all, although it is a very good program and it was developed on the basis of 200 units in a subdivision like any development. In addition to that, we have had individual home developments. One of the problems that has developed is the fact that this is converse to what we have had in some instances. We put a 235 project or a house in a neighborhood and the neighbors complained because it was upgrading the neighborhood too much.

Mr. SWEENEY. I would like the problem.

Mr. STEPHENS. That is very much of a switch. Usually the idea that HUD has had is that you have got to bring into this community a low-income unit. This was put in and the people complained that either they wanted to have the same kind of house or that it put them in the embarrassing position because they couldn't afford to improve their own homes right there. But you have not had many individuals, no developments of large areas like that?

Mr. SWEENEY. No, sir. I believe that there is some experience in the southern part of the State where the cost picture is more favorable but not in this part of the State.

Mr. STEPHENS. What then would be a breaking point on the 235 if you want to reinstitute it? I assume that one of the problems is high cost of the land. Is that true?

Mr. SWEENEY. Yes, sir; that is definitely a problem. Taxes, real estate taxes in New Jersey is a constant problem.

Mr. STEPHENS. We had some very interesting comments on the New Jersey statute which may be rather peculiar to this State.

Mr. SWEENEY. The reliance on the property tax here is more than it is in most places, very definitely.

I think also general construction costs are, particularly, since you have to use Federal wage standards.

Mr. STEPHENS. You mean under the Bacon-Davis Act?

Mr. SWEENEY. It makes the cost of construction higher; yes, sir. I don't know what the dollar break-even point would be to make it operable. I would really have to think this one through. If you go up very high you defeat the purpose of the program because—

Mr. STEPHENS. A person can't afford—

Mr. SWEENEY. The income won't support the mortgage, right.

Mr. STEPHENS. In other words, if you got above the \$24,000 level, to meet the cost of it then you would be pricing yourself out of the help for the individual—

Mr. SWEENEY. Yes, sir.

Mr. STEPHENS. In his salary level. In other words, you would be out of the low income and into the moderate income bracket and providing a too high an income group.

Mr. Minish, do you have questions?

Mr. MINISH. Yes.

Mr. Sweeney, good to meet you. You know we can't leave the town or we can't leave Washington without somebody complaining about Jim Sweeney.

First of all, what are you doing about the FHA problem? We got that as we were having lunch, by the way.

Mr. SWEENEY. Well, I think the complaint should go a little beyond Jim Sweeney alone.

Mr. MINISH. I am sure. You are in the unfortunate position of being the only fellow we have here right now.

Mr. SWEENEY. It is my responsibility and I accept it.

The FHA problem, I guess you hear it most frequently with respect to single family homes, existing homes, the processing of home mortgages. There are two reasons at this point in time why our processing time is quite long and is a burden on the industry.

One is that as a result of review by the regional office it was determined that in order to conform to the regulations and produce quality processing that we should not exceed a certain level of processing numbers until we had retrained some fee appraisers, retrained our own staff, and increased our own staff. We have brought in some new appraisers. We are in the process of training them. We do expect to increase the numbers of processing in the immediate future.

Mr. MINISH. I am aware that a major part of the problem is a lack of personnel. Am I correct in that?

Mr. SWEENEY. It is a very serious problem; yes.

The other side of the coin is that as an outgrowth of the 235 problems, particular attention was called to the quality of homes and the condition of homes people were purchasing. So it is much more time-consuming but I think very necessary for the FHA upon whom people rely for the opinion on a house to make sure the judgment is sound and make sure that the transaction is a sound, desirable one for the buyer.

This in turn is a more time-consuming process as I stated. But again I hope that the staffing increases on it will help us alleviate the problem.

It is a fact, let me add, it is a fact in spite of the widespread publicity of the precautions that we are taking, of the extra look at applications that we are taking, of the extra appraisers and followup and scrutiny of documents that we are undertaking, that there are still applications being submitted to our office which are not considered satisfactory applications and which must be either looked into further, prepared for investigation, sent back or other very, very time-consuming process.

Mr. STEPHENS. That may be a little bit of a case of over-reaction as a result of criticism.

Mr. SWEENEY. I am asked that question often. I think that it is possible.

Mr. STEPHENS. I don't want to say they should just turn loose all the money. It may be that—

Mr. SWEENEY. I think it is possible that individuals on our staff or under contract to us for appraisal may react in a more conservative manner, more thorough manner, either term you can use as a result of that, but I think that the comments made about the fact that it appears that a small segment of the industry, and it is a small segment of the industry, but nevertheless, enough to be concerned, one is enough to be concerned with, the fact it still occurs really means that it would be inadvisable for us to all of a sudden go back to 5-day processing, for instance, at this point in time.

Mr. MINISH. But you are making an effort to speed it up so you can alleviate the problem?

Mr. SWEENEY. Yes; for a very definite reason, I think, particularly in the older areas, the inner cities and borderline inner cities, the private mortgage market is not participating without the guarantees of FHA and VA and it is very important we do this.

Mr. STEPHENS. It has been a little difficult for me to get the concept of the 235 out of my head that I have had at home or in the area there where you have a developer have 200 homes or 100 homes and they come in and ask for approval and the only problem we end up

with is that you get the question of racial balance into the picture where you have a whole development, which I don't think you have here. But you don't develop as a whole so you wouldn't be concerned probably with that. But would a real estate agent pick out the house, ask for it to be looked at by FHA and then he puts the owner in there and put it under the 235 interest supplement program?

Mr. SWEENEY. Yes; the house would first come in to us normally without being identified as a 235 transaction. It would come in to us for a conditional commitment.

Mr. STEPHENS. A commitment for just insurance alone?

Mr. SWEENEY. That is right; on the value of the house and the repairs that are necessary for it to hold that value. Later on when they come in for a final commitment they come in with the buyer, the credit instrument and all of the things that make up the full transaction, and it is at that point we would know it is a 235 transaction.

Mr. STEPHENS. Then you are depending upon the real estate agent to get all of the data together and present it?

Mr. SWEENEY. The mortgagee. He may use the real estate agency. He shouldn't use them for some of the things. He can use them for others.

Mr. STEPHENS. Whoever is going to lend the money, that is the one you are talking about?

Mr. SWEENEY. That is right.

Mr. STEPHENS. Then they present you the evidence of the fact as to whether or not the prospective purchaser has a sufficient income to carry the house plus the fact that he has a limitation of income, which makes him eligible. They present that evidence and then you inspect to see whether the evidence as presented to you is right?

Mr. SWEENEY. That is right.

Mr. STEPHENS. That is the procedure?

Mr. SWEENEY. That is correct.

Mr. MINISH. Mr. Sweeney, the FACE program, is that under your Department?

Mr. SWEENEY. Yes.

Mr. MINISH. Are you familiar with the articles in the Star-Ledger where they were very critical of them?

Mr. SWEENEY. Yes, sir.

Mr. MINISH. In that case I will put this into the record.

(The articles referred to are retained in the subcommittee's file.)

Mr. MINISH. In a recent series of articles the Star-Ledger reported that the federally assisted code enforcement program, known as FACE, has created potentially serious problems among the very persons it is designed to help.

The HUD funded program's intention is to provide Federal help to upgrade neighborhoods through strict code enforcement. Federal grants up to \$3,500 are made available to qualified property owners—those whose monthly housing costs are more than 25 percent of their income. Moreover, 3-percent loans are offered to assist homeowners to finance repairs necessitated by code violations. An added feature of the program is the offer to refinance mortgages at a rate of 3 percent if the total rehabilitation cost exceeds 20 percent of the outstanding mortgage loan.

The Star-Ledger reported that the benefits are being applied to property owners in Newark's Clinton Hill and Wequahic sections, which have been designated FACE areas.

But the property owners complained to the Star-Ledger:

(1) The FACE administration makes it difficult for low- and moderate-income people to qualify for the grant, while there are many people earning \$15,000 and more who seem to do so with ease.

(2) When the building code violations are uncovered, the inspectors often overlook potentially serious electrical code violations and plumbing deficiencies and concentrate on cracked plaster, leaking radiators, and peeling paint.

(3) Repair estimates, which are prepared by FACE after a FACE inspector tours the property, range to five figures. And when the contract is let, high-quality materials specified—such as brand name paints—are substituted with low-quality, bargain materials. They said although FACE asserts it has tight control, the contractors seem to work with autonomy.

(4) Many people complained that contractors do shoddy work, and in one instance, a woman said she threw the contractor out of her home because of the mess he made. To make matters worse, she said the paint he had used throughout her home had begun to bleed and the old paint began to seep through.

(5) A number of persons living in the FACE area contend that while their homes are subjected to the rigid inspection, others seem to escape the search for code violations.

(6) Many persons who purchased their homes with FHA mortgages contend the FHA, when it approved the sale, overlooked the numerous code violations and allowed the home to be sold for a premium price in a neighborhood that is in transition. Then, when the inspectors come around, FHA turns a deaf ear to their requests for explanations of how the Federal agency found the house worth more than \$20,000 while a city inspector can find \$10,000 worth of violations that must be corrected or the owner faces prosecution. I assume this is something that you are looking into.

Mr. SWEENEY. Yes. As a matter of fact, we took one action at the time and that was to hold back the authority on the grant, the authority to make grants. Let me say that a little more clearly. The authority to process loans or a combination of loans, the 3-percent loans and grants, was not delegated to the local communities, who had to process those. The authority to make grants only without a loan attached to improvements on the house was delegated to most communities.

We temporarily suspended that in all of the communities operating not only the FACE program but the urban renewal rehabilitation operations and have been on an itemized basis as we were reassured community by community restoring that authority to them. That was a result of the Star-Ledger disclosures.

The problems in the FACE program in Newark, among other things, relate to the fact that the program itself requires a very intensive persistent and sensitive relationship with the homeowner. You are telling the homeowner he needs to make improvements, you are helping him to put together a package, but he is the one that is going to be spending the money for it and it takes a great deal of sensitivity and consideration in doing this.

In some cases the inspections were more extensive than possibly they need be but we have had numerous conversations and discussions and I believe training sessions have been undertaken in Newark in this regard.

I believe also some administrative changes have been made in the Newark operations in order to be able to answer the inquiries of people. One of the complaints was that after inspections and after getting letters they just couldn't get help and get the processing through.

We also asked that they limit and focus for the time being their program on the one- to four-family homes, concentrate on the homeowners rather than on the large apartment buildings for the time being because those are the people who most need assistance.

Mr. STEPHENS. One- to four-family dwellings?

Mr. SWEENEY. Yes, sir.

Mr. STEPHENS. Units?

Mr. SWEENEY. Yes, sir.

Mr. MINISH. Mr. Sweeney, do you have any procedures for processing complaints about unscrupulous real estate agents and speculators in the 235 program?

Have you prevented any of them or disbarred them from further FHA work?

Mr. SWEENEY. Yes, we do. First, we do maintain a list of known speculators and as we identify them we keep that list in the office so we can make sure that we use what we call modified cost approach in appraising the value on properties. Furthermore, if there is any indication of any wrongdoing or any misrepresentation or falsification or sometimes just a completely confused set of documents, we look into them to a certain extent in our own office and turn the facts over to the investigative division in the regional office and they follow them through. Based on the results of that investigation it might, of course, even go to the Department of Justice in some cases, as some have in our area and other parts of the country. If that action is not taken and the report of the investigation back to us merits it, we could take a number of actions, the principal one being the most severe one, an unsatisfactory risk determination made by our office.

With relation to 235, this process is grinding its way through and because of the large number of them so we haven't taken any, I don't believe we have taken any, we may have taken a few, I really can't recall, of the URD, so-called URD actions, but we have put a very large number of them into the investigatory processes and are still doing so on a smaller scale.

Mr. MINISH. And the 235, are you now informing the buyer the length of time that the seller had the home?

Mr. Romney suggested at the hearing that all his people were informing the purchaser if a home was held for less than a year they would be told who had it from that point on.

Mr. SWEENEY. I would have to check that specific piece of information. If it is in the requirements we are doing it. We are getting the piece of information as to the purchase price of a house if it was bought within the last 2 years.

Mr. MINISH. The Secretary said that I think in Philadelphia if I recall, and other areas of the country, he gave orders that any time anyone owned a house for less than a year that the prospective pur-

chaser would be given all of the details to get away from the thing that happened here at the time you came in or before you came in. I don't know the exact date.

Mr. SWEENEY. It was before nonetheless. You mean the 1-day transaction type thing?

Mr. MINISH. Right.

Mr. SWEENEY. I am not absolutely sure of the regulation on it. Whatever the regulation is on it I am absolutely sure we are doing it.

Mr. STEPHENS. We are contemplating that as a statutory provision in the housing bill.

Mr. SWEENEY. I would agree with that.

Mr. STEPHENS. Well, Mr. Sweeney, we appreciate your coming and being with us. It looks as if the time has come for us, since we have been here trying to listen and think and talk all at the same time, since about 10 o'clock this morning. We appreciate your time and the review that you have given us.

Mr. SWEENEY. I appreciate your interest in our problems.

Mr. STEPHENS. Thank you.

Mr. MINISH. Thank you very much.

Mr. STEPHENS. The hearing is now adjourned and we will not have any more testimony during this hearing although tomorrow morning we will visit the Model Cities area with the group. Thank you very much.

(Whereupon, at 5 p.m., the subcommittee was adjourned, subject to call from the Chair.)

