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RELEASED



Administration And Effectiveness
Of Economic Development And
Manpower Training Program
Alleviating Unemployment
in Knox County, Kentucky

Office of Economic Opportunity
Department of Labor

THE COMPTROLLER GENERAL
OF THE UNITED STATES

915496

MARCH 24 1965

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

B-130515

Dear Dr. Carter:

This is our report on the administration and effectiveness of economic development and manpower training programs in alleviating unemployment in Knox County, Kentucky, operated by the Knox County Economic Opportunity Council, Inc., and funded by the Office of Economic Opportunity and the Department of Labor. Our review was made pursuant to your request of June 3, 1969.

Officials of the Office of Economic Opportunity, the Department of Labor, and the Council have not been given an opportunity to formally examine and comment on the contents of this report. As agreed with your staff, we are sending copies of this report to the Director, Office of Economic Opportunity, in order that he might take action on the recommendations contained in the report. We are also sending copies of this report to Congressman Albert H. Quie and the Secretary of Labor.

We plan to make no further distribution of this report unless copies are specifically requested, and then we shall make distribution only after your agreement has been obtained or public announcement has been made by you concerning the contents of the report.

Sincerely yours,

A handwritten signature in cursive script that reads "James B. Peets".

Comptroller General
of the United States

The Honorable Tim Lee Carter
House of Representatives

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ABBREVIATIONS

- CAA Community Action Agency
- CAP Community Action Program
- DOL Department of Labor
- EOA Economic Opportunity Act
- GAO General Accounting Office
- KCEOC Knox County Economic Opportunity Council, Inc.
- OEO Office of Economic Opportunity
- SBA Small Business Administration

D I G E S T

WHY THE REVIEW WAS MADE

Congressman Tim Lee Carter asked the General Accounting Office (GAO) to review the Community Action and Operation Mainstream programs operating in Knox County, Kentucky, under the Economic Opportunity Act of 1964. Both programs are administered by the Knox County Economic Opportunity Council, Inc. GAO previously reported to Congressman Carter on selected aspects of the Knox County Community Action Programs (B-130515, August 11, 1967).

GAO reviewed primarily the administration and effectiveness of the Council's programs for alleviating unemployment in the county through economic development and manpower training programs.

Congressman Carter expressed particular interest in the use of Office of Economic Opportunity (OEO) and Department of Labor funds to support a Council economic development project that employs local residents in the manufacture and sale of wood products. Previously these wood product activities were carried out by Cannon Industries, a small privately owned company in Knox County.

OEO, Labor, and Council officials have not been given an opportunity to formally examine and comment on the contents of this report.

FINDINGS AND CONCLUSIONS

The main thrust of the Council's antipoverty activities has been directed toward manpower training and economic development programs. In November 1969, the Council had (1) a wood products project which manufactured, for sale, items such as wooden pallets, boxes, and chair frames, (2) an arts and crafts store which marketed locally produced products such as dolls, quilts, and woodcrafts, (3) for-profit projects in sewing, upholstery, and wood box repair, and (4) a number of community-service-oriented projects--road repair, home improvements, etc.--which employed local residents who otherwise had no reasonable prospect of employment. (See p. 14.)

In general, the Council's manpower and economic development programs have not yet become an effective means of providing the unemployed with job opportunities, except in Government-funded programs. (See p. 14.)

Primarily with Federal funds, the Council, as of September 1969, was providing employment for 246 persons--42 in supervisory-type positions and 204 in trainee-type positions--in the projects described above. About one third of the employees were engaged in projects designed to provide goods and services for sale. (See p. 14.)

The Council's direction of effort toward combating a basic cause of poverty in Knox County--inadequate employment opportunity--is, GAO believes, highly commendable. Plans for the development of the income-producing projects into economically viable enterprises existed. However, the feasibility of the plans had not been demonstrated and the goals established did not appear realistic on the basis of the Council's past experience which shows that actual results have been substantially below the planned goals for growth and stability. (See p. 14.)

For example, in April 1968, the Council advised OEO that it had obtained contracts for the manufacture of furniture parts which would provide gross annual sales of \$120,000 and that additional income sources were being developed. (See p. 20.) In comparison, during the 23-month period, from December 1967 through October 1969, the wood products projects had made sales amounting to only about \$130,000--\$35,000 for pallets and boxes and \$94,800 for chair frames. (See p. 22.)

Regarding the potential for meeting future economic growth goals, GAO noted that the Council was experiencing continuing difficulty in obtaining contracts for wood products. For example, in November 1969 the Council had had no production of wood products for about 2 months. Unless conditions change significantly, the potential for development of a market big enough to sustain 48 employees, as predicted by the Council to occur beginning in August 1970, does not appear realistic. (See p. 21.)

The wood products manufacturing operation of the Council is essentially an extension of an operation which a private firm previously had been unable to develop into an economically sound venture, and a comprehensive analysis of the economic feasibility of the venture has not been made. GAO believes that there is a need to evaluate whether a market exists for the products which the Council has selected to manufacture at a price which will support the Council's cost to produce. (See p. 27.)

Formal signed agreements or documents authorizing the Council to assume the activities of Cannon Industries could not be located by GAO, and there was a need to clarify the Council's legal relationship to the activities of Cannon Industries which the Council had assumed. (See p. 19.)

There were a number of areas where it appeared that the Council could strengthen its management and improve its financial control of income-producing projects and thereby could increase the possibilities for developing a successful operation.

- The actual product costs of the wood products activities were not known. Bids submitted by the Council to prospective customers for the manufacture of certain wood products indicated that, assuming bid amounts were reasonably representative of product costs, the project was trying to sell items which could not be competitively priced, using existing facilities. (See p. 22.)
- The Council did not follow sound procedures in contracting with its customers for wood products except when contracting with the Government. Generally, there were no written agreements showing contract terms--price, volume, delivery schedule--for customers other than the Government. The Council did not have a billing system which would ensure that all sales were recorded and collections were made. (See p. 25.)
- Improvements were needed in cost-accounting and bidding procedures and production controls. (See p. 25.)

GAO believes that the community-service-oriented programs generally met the purposes of Labor's Operation Mainstream program. (See p. 28.)

GAO also comments on the objectives and direction of effort of the other programs conducted by the Council and states that, although various problem areas had been identified from time to time in internal management reports, comprehensive evaluations of the effectiveness of the programs were not being made by either the Council or OEO. (See p. 29.)

One of the major problems encountered in the community center program has been the difficulty of getting the people to understand the problems of the community rather than becoming entangled with individual problems. Other problems were poor attendance at meetings, strong disagreement on actions to be taken, lack of leadership initiative, and frequent turnover in staff personnel. (See p. 30.)

In October 1969, GAO requested the Director of OEO to comment on whether the Council's purpose and activities, as set forth in the Council's grant application, are in consonance with the prohibitions, as contained in the Economic Opportunity Act and implementing OEO guidelines, against a Community Action Agency's engaging in certain political activities. As of February 27, 1970, a reply had not been received from OEO. A copy of the OEO response, when received, will be provided to Congressman Carter. (See p. 30.)

A number of problems were identified in the early childhood and community education programs. (See p. 33.)

RECOMMENDATIONS OR SUGGESTIONS

GAO is recommending that the Director of OEO

- provide the Council with the technical and management assistance necessary to determine whether the Council's plans for the development of economically viable enterprises are feasible and assist the Council in the establishment of the management improvements needed and
- require OEO's General Counsel to clarify the Council's legal relationship, if any, with Cannon Industries and assist the Council in preparing any legal documents considered necessary under the circumstances. (See p. 27.)

GAO has requested advice from the Director, OEO, on actions taken on the matters discussed in the report.

CHAPTER 1

INTRODUCTION

The General Accounting Office has made an examination into selected aspects of the Community Action Programs in Knox County, Kentucky, which was funded by the Office of Economic Opportunity under title II, part B, of the Economic Opportunity Act (EOA), as amended (42 U.S.C. 2701), and the Operation Mainstream program which was funded by the Department of Labor (DOL) under title I, part B, of EOA. This review was undertaken pursuant to a request dated June 3, 1969, by Congressman Tim Lee Carter and subsequent arrangements with him. We previously reported to Congressman Carter on selected aspects of the Knox County Community Action Programs (B-130515, August 11, 1967).

Our examination in Knox County was directed primarily toward the administration and effectiveness of program activities from October 1967 through November 1969 to alleviate the problem of unemployment in the county through economic development and manpower training program components. These program components represent the major thrust of the current OEO program in Knox County. The scope of our review is described in more detail on page 37.

ECONOMIC OPPORTUNITY ACT

The EOA of 1964, commonly referred to as the war on poverty act, was enacted on August 20, 1964, to strengthen, supplement, and coordinate efforts to eliminate poverty in the United States. The act authorized the establishment of various programs intended to open to everyone the opportunity for education and training, the opportunity to work, and the opportunity to live in decency and dignity. To lead this endeavor, the act created OEO, headed by a Director, in the Executive Office of the President.

Amendments to the act in 1965, 1966, and 1967 authorized continuance of the programs included in the original legislation, added new programs, and made various changes governing the administration of the programs.

Community Action Program

Title II of the act, as amended, provides for the establishment of Community Action Agencies (CAAs) and Community Action Programs (CAPs) designed to provide stimulation and incentive for urban and rural communities to mobilize their resources to combat poverty. These programs are to be focused upon the needs of low-income individuals and families; are to be developed, conducted, and administered by public and private nonprofit agencies; and are to have maximum feasible participation of residents of the areas and members of the group served.

Pursuant to the 1967 amendments, the basic purpose of title II is:

"*** to stimulate a better focusing of all available local, State, private, and Federal resources upon the goal of enabling low-income families, and low-income individuals of all ages, in rural and urban areas, to attain the skills, knowledge, and motivations and secure the opportunities needed for them to become fully self-sufficient."

The act, as amended, stipulates that a CAP is to be a community based and operated program (1) which includes, or is designed to include, a sufficient number of projects or components to provide, in sum, a range of services and activities having a measurable and potentially major impact on causes of poverty in the community or those areas of the community where poverty is a particularly acute problem, (2) which has been developed and which organizes and combines its component projects and activities in a manner appropriate to carry out the purpose of title II, and (3) which conforms to such other supplementary criteria as the Director of OEO may prescribe consistent with the purposes and provisions of title II.

A CAP is to be carried out by a CAA which shall be a State or political subdivision of a State, or a combination of such political subdivisions, or a public or private nonprofit agency or organization which has been designated by a State or such a political subdivision or combination of

such subdivisions, which (1) has the power and authority to perform and will perform the functions specified in the act, including the power to enter into contracts with public and private nonprofit agencies and organizations (delegate agencies) to assist in fulfilling the purposes of title II, and (2) is determined to be capable of planning, conducting, administering, and evaluating a CAP and is designated as a CAA by the Director of OEO.

The act, as amended, provides also that, after June 30, 1967, Federal assistance for CAPs not exceed 80 percent of the approved cost of the assisted programs or activities, unless the Director determines that assistance in excess of such percentage is required in furtherance of the purposes of title II. The remaining portion of the cost (non-Federal contribution) is to be contributed by the community and may be either in cash or in-kind contributions. Prior to July 1, 1967, Federal assistance to these programs was not to exceed 90 percent of the approved costs unless the Director determined that assistance in excess of that percentage was required in furtherance of the purposes of title II.

Operation Mainstream program

Operation Mainstream was initially authorized under title II, section 205(d), by the 1965 amendments to EOA. The 1967 amendments provided for inclusion of Operation Mainstream under the Comprehensive Work and Training Program.

Section 123(a)(3) of EOA, as amended in 1967, authorizes the Director of OEO to provide financial assistance for special programs which involve work activities directed to the needs of chronically unemployed poor persons who have poor employment prospects and who are unable--because of age, lack of employment opportunity, or otherwise--to secure appropriate employment or training assistance under other programs. In addition, the program is designed to help such persons participate in projects for the betterment or beautification of the community or area served by the program. These projects include activities which will contribute to the management, conservation, or development

of natural resources; recreational areas; Federal, State, and local government parks; highways; and other lands.

OEO PROGRAM ADMINISTRATION

The Director of OEO is responsible to the President for the administration and coordination of the war on poverty programs authorized by the act. He is responsible also for the establishment of basic policies governing OEO operations and programs and for the planning, direction, control, and evaluation of OEO programs.

Prior to September 1969, OEO headquarters included a CAP office which was responsible for directing and evaluating the effectiveness of the CAP, ensuring that all program requirements were met, developing policies and program guidelines, providing financial standards and procedures, and reviewing program proposals. In September 1969 the OEO headquarters office was undergoing a major reorganization, and the responsibilities of the CAP office were vested primarily in a newly established Office of Operations.

OEO established regional offices which assist communities in applying for and in conducting CAPs. Regional Directors are responsible for the direction, control, evaluation, and coordination of all aspects of the CAPs and other OEO activities in their regions.

The regional offices have the responsibility for reviewing and processing communities' applications for CAPs and the authority to approve the applications for most programs. For most of the time period covered by our review, the OEO Mid-Atlantic Regional Office, which was located in Washington, D.C., served Kentucky, six other States, and the District of Columbia.

DOL PROGRAM ADMINISTRATION

The Director of OEO delegated authority to administer Operation Mainstream to the Secretary of Labor. Initially, the Bureau of Work-Training Programs, in the Manpower Administration was responsible for administering the Operation Mainstream program.

In March 1968, however, the Regional Manpower Administrators were delegated authority and assigned responsibility within their respective regions for approving and executing contracts and agreements for programs authorized by title IB of the EOA. The Bureau of Work-Training Programs, however, retained the responsibility for recommending local projects to the Regional Manpower Administrator and for approving contracts to be executed at the national level.

Under a reorganization plan effective March 17, 1969, in the national office and March 24, 1969, in the field offices, the Bureau of Work-Training Programs was discontinued as a separate entity within DOL. The functions of the Bureau of Work-Training Programs were assumed by the U.S. Training and Employment Service, a component within the Manpower Administration created by the reorganization plan.

FORMATION AND OPERATION OF THE KNOX COUNTY ECONOMIC OPPORTUNITY COUNCIL, INC.

The CAA for Knox County is the Knox County Economic Opportunity Council, Inc. (KCEOC). KCEOC was established in December 1964, as a nonprofit agency to develop, administer, and coordinate CAPs in the county. KCEOC, as incorporated, is governed by a 27-member board of directors which includes local representatives from the school system, government, business, public housing, medical profession, labor and minority groups, farmers, and nine representatives elected by the residents of poverty areas.

The executive director of KCEOC has the responsibility for administering KCEOC programs and services in accordance with policy determinations of the board of directors, assisting in defining KCEOC objectives, and developing and implementing a coordinated antipoverty program.

KCEOC was the applicant agency for CAPs in Knox County until August 1966 when it became a delegate agency to the Cumberland Valley Area Economic Opportunity Council, Inc. (Cumberland Valley). On February 28, 1967, OEO advised Cumberland Valley that its grant would not be extended because it had not met a high enough standard of achievement or had not demonstrated enough potential for achieving program goals to merit being refunded. Cumberland Valley's grant expired and its authority to function as the grantee for the area was terminated. This function was temporarily assigned to the Council of Southern Mountains, Berea, Kentucky. Through September 1967, OEO funds amounting to about \$1.9 million had been made available to KCEOC.

Beginning on October 1, 1967, KCEOC again was funded directly by OEO, and, from that time through September 1970, OEO approved grants for KCEOC totaling over \$2 million for the purposes shown in the following table.

<u>Purposes for which funded</u>	<u>Funding</u>	
	<u>Prior years</u> <u>10-1-67 to 9-30-69</u>	<u>Current year</u> <u>10-1-69 to 9-30-70</u>
CAA administration	\$ 179,842	\$ 88,258
Community center program:		
Neighborhood center ad- ministration	44,551	33,800
Community organization	131,168	80,729
Early childhood	389,135	242,867
Community education	46,936	19,750
Emergency food and medical services program	55,541	42,983
Job development	92,777 ^a	-
Vocational training	89,724 ^a	-
Economic development	-	129,467 ^a
Community administration	247,723	-
Housing services	52,590	-
Health services	22,698	-
Farm income	9,240	-
Consumer education	6,402	-
Special programs	1,878	-
Home management	1,930	-
 Total	 <u>\$1,372,135</u>	 <u>\$637,854</u>

^aThe job development and vocational training projects were consolidated into the economic development projects for the current year funding.

Non-Federal share requirements were limited to whatever contributions the community might be able to afford.

In addition, KCEOC expended about \$785,206 from funds provided by DOL from July 1968 through October 31, 1969, and KCEOC made in-kind contributions totaling \$47,403 under an Operation Mainstream contract. Subsequent to October 31, 1969, DOL continued to fund the program on a month-to-month basis at a rate which KCEOC estimated would amount to about \$198,468 for the 3-month period ended January 31, 1970.

SOCIAL AND ECONOMIC CHARACTERISTICS OF
KNOX COUNTY

Knox County has an area of 373 square miles and is located in the Cumberland Gap Valley of southeastern Kentucky approximately midway between Lexington, Kentucky, and Knoxville, Tennessee. The county is a part of the Appalachian mountain region. The 1960 population of Knox County was estimated at 25,000. Barbourville, with a population of about 3,200, is the county seat and the largest community in Knox County.

A Kentucky Department of Commerce report showed that the total employment in Knox County averaged 3,500 during 1968. Of this figure, about 1,100 were employed in trade and services, about 1,000 in manufacturing, and the remainder in government activities and agriculture. Apparel manufacturing and lumber are the leading industries in Barbourville.

A 1966 study by Cumberland Valley showed that the annual income of the 5,754 families residing in the county was distributed as shown in the following table.

<u>Income</u>	<u>Number of families</u>
Less than \$ 1,000	1,906
\$1,000 to 1,999	1,344
\$2,000 to 2,999	804
\$3,000 to 10,000	1,602
Over \$10,000	98

The study showed that, for June 1966, 1,390 males and 1,556 females were either unemployed or underemployed. According to OEO poverty guidelines in effect during the period July 1968 through September 1969, if a nonfarm family of four had an annual income of less than \$3,300 the family was considered to be poverty stricken. Effective October 1, 1969, the poverty guideline for a family of four was raised to \$3,600.

The study also showed that 8 years was the median number of years of education received by those who were

25 years of age or older. About 3,300 persons were reported as having 4 years or less of schooling and were classified as technically illiterate.

CHAPTER 2

OBSERVATIONS ON ECONOMIC DEVELOPMENT AND MANPOWER TRAINING PROGRAMS

The major thrust of KCEOC's antipoverty activities has been directed toward economic development and manpower training efforts. These efforts have been supported by DOL through the Operation Mainstream program under which approximately \$1 million was made available by January 30, 1970, and by OEO which, from program inception to September 30, 1970, will have committed about \$390,000 to job development, vocational training, and economic development programs plus a portion of about \$268,000 made available for overall administration of KCEOC's programs. In general, KCEOC's manpower training and economic development programs have not yet become effective vehicles for providing the unemployed with job opportunities in other than Government-funded programs.

Primarily with Federal funds, KCEOC, as of September 19, 1969, was providing employment for 246 persons--42 in supervisory-type positions and 204 in trainee-type positions. The principal objectives of Operation Mainstream are noted on page 7. KCEOC is carrying out projects to achieve such objectives. (See p. 28.) In addition, KCEOC has expanded on the concept of the program by allocating approximately one third of its resources, as measured by the assignment of its employees among the various ongoing projects, to the task of creating a viable industrial entity which would, if successful, expand the opportunities in the county for permanent, unsubsidized employment.

The direction of effort toward combating a basic cause of poverty in Knox County--inadequate employment opportunity--is, in our view, highly commendable. Although a plan and targets for development exist, the feasibility of the plan has not been demonstrated and the targets established do not appear realistic, on the basis of KCEOC's past experience. In addition, we found indications of the need to strengthen management functions relating to market

development and ability to compete, contracting and financial management, cost accounting and bidding procedures, and production controls.

After considering the context of the substantial Federal investment which has been made in the program and the further investment which may be required, we believe that a need exists at this time for OEO to assist KCEOC in determining the feasibility of its plans for economic development and in strengthening program management.

A listing as of September 19, 1969, of KCEOC's various manpower and economic development projects and the employment levels and certain program statistical data pertaining to the projects follows.

<u>Projects</u>	<u>Number of persons</u>	
	<u>Administrative or supervisory</u>	<u>Trainees</u>
Income-producing projects:		
Administration	9	
Wood dimension products division	7	20
Arts and craft workshop division	2	
Sewing	2	11
Upholstery	1	3
Woodcraft	4	23
Production	4	9
Arts and craft sales store	<u>1</u>	<u>1</u>
Total	<u>30</u>	<u>67</u>
Non-income-producing projects:		
Home improvement	6	19
Road improvement	4	52
KCEOC Motor Pool	1	6
KCEOC Headquarters		3
Custodial		54
State park aides		3
KCEOC project administrator	<u>1</u>	
Total	<u>12</u>	<u>137</u>
Total	<u>42</u>	<u>204</u>

As shown in the schedule above, employment in the manpower and economic development projects at September 19, 1969, was directed approximately one third toward income-producing projects (projects which are meant to become self-sustaining) and two thirds toward non-income-producing projects (projects which will need Government funds to continue). The income-producing projects generate income for KCEOC, whereas the non-income-producing projects produce a service.

The KCEOC has determined that training should not be provided for possible employment out ^{and to the limits} of the Knox County area, and, in the absence of an adequate economic base within the county, the potential for job placement outside the program is low. From the beginning of the program through August 31, 1969, 18 trainees had left the program. Of these 18, five had been placed in better paying positions with KCEOC, three had found employment elsewhere, and 10 had terminated because of health, excessive absenteeism, or other reasons. During that period, the average length of stay in the program was about 9 months and 118 trainees were in the program 10 months or longer.

A review of the enrollee applications for the 202 trainees involved in the KCEOC manpower program as of September 1, 1969, showed that the average trainee was over 42 years old, had 4-1/2 years of formal education, and had been earning under \$2,500 a year on which he supported himself and five dependents, before enrolling in the program. Of the 202 participants, 18 were female. Of the 202 trainees, 138 were transferred to this manpower program from the Department of Health, Education, and Welfare's work experience and training program when it was phased out.

The following sections of this chapter contain more detailed comments on the income-producing projects--history of their formation and financing, progress of their development, and management weaknesses noted--and on the non-income-producing projects.

INCOME-PRODUCING PROJECTS

The income-producing projects operated by KCEOC are a wood products division, an arts and crafts sale store, and an arts and crafts workshop division.

In late 1967, KCEOC became involved in developing contracts for Cannon Industries, a small privately owned wood products company in Knox County. According to KCEOC, the industry was on the verge of bankruptcy. (See below.) At the time of our fieldwork, one of KCEOC's income-producing projects--wood dimension products division--was operating in the Cannon Industries facility. The division manufactured wooden boxes, chair frames, and pallets. To establish the wood projects enterprise, a \$5,000 revolving fund was created with OEO funds, \$18,000 of OEO funds was loaned to KCEOC for the purchase of raw materials for the wood projects manufacturing operation, and surplus Government property was obtained for the manufacturing process.

In August 1968, KCEOC opened an arts and crafts store on U.S. Highway 25E where locally manufactured products--such as dolls, woodcraft, quilts, and other goods--are offered for sale. These products were originally fabricated in the homes of participants in other KCEOC antipoverty programs and in the OEO-funded neighborhood centers; however, rent-free space was later obtained from a church and a workshop was established to produce many of the products made available in the store. In July 1968 and February 1969, KCEOC began sewing and upholstery projects, respectively. Proceeds of \$5,000 were transferred from the revolving fund established for the wood projects enterprise to establish a second revolving fund for the arts and crafts project.

With few exceptions, payroll costs for all projects were met with OEO and DOL funds.

KCEOC's relationship to a private income-producing company

Steps by KCEOC to assist Cannon Industries, which was reportedly on the verge of bankruptcy, and later to take

over operation of the Cannon Industries facility apparently were taken without legal documentation which would clarify, under law, the positions of the two parties or KCEOC's position against third parties under the arrangements made.

Late in calendar year 1967, KCEOC obtained a contract under which Cannon Industries was to produce component parts for 500 chairs, negotiated with the board of directors of Cannon Industries to assume managerial control of the company, and assisted in making an application to the Small Business Administration (SBA) for a \$25,000 loan to provide financing for Cannon Industries.

It appears that KCEOC actually began to operate Cannon Industries in December 1967 and produced the component parts under the contract it had obtained for Cannon Industries. On June 13, 1968, KCEOC and Cannon Industries entered into a management agreement which included in part the following provisions:

1. Cannon Industries was to employ KCEOC to provide management of its factory for a period of not more than 3 years, if necessary funding could be arranged with the "proper Federal Authorities"--the Small Business Administration.
2. KCEOC would have the authority to hire and fire employees of the company.
3. KCEOC would not be liable or responsible for any indebtedness of the company and would not receive any remuneration from the company except for \$1 in consideration for KCEOC's assuming the management duties detailed in the agreement.

SBA did not grant the loan in question, and KCEOC considered the management agreement voided because KCEOC had agreed to manage the project only if such funding could be arranged. At the time of our review, notwithstanding the lack of a management agreement, KCEOC continued to operate Cannon Industries; assumed responsibility for the lease agreement with the Commonwealth of Kentucky which owns the Cannon Industries building; and, as part of its manpower

program, continued to produce the component parts for chairs under the contract obtained in December 1967.

We were unable to locate any formal signed agreement or documents which authorized KCEOC to assume the activities of Cannon Industries. KCEOC believes that it has no relationship with Cannon Industries and that KCEOC's wood dimension products division is an entity separate and apart from Cannon Industries.

We believe that, to clarify KCEOC's legal relationship with Cannon Industries--especially relating to any outstanding debts of Cannon Industries--the OEO General Counsel should assist KCEOC in preparing and finalizing any legal documents considered necessary under the existing circumstances so that the investment of Federal funds will be appropriately applied and adequately protected.

Program progress

Actual results achieved by KCEOC have been substantially below the expectations envisioned in plans for the growth and stability of the income-producing projects.

In April 1968, when KCEOC was considering what steps could be taken to assist Cannon Industries, KCEOC advised OEO that it had obtained contracts for the manufacture of furniture parts which would provide gross annual sales of \$120,000 and that additional income sources were being developed. In July 1968, KCEOC reported that the continued development of contracts could result in the employment of 40 men in the wood products manufacturing operation and the placing of 41 trainees in income-producing projects under the Operation Mainstream contract being negotiated with DOL. For the quarter ended March 1969, KCEOC reported its enrollment of 185 trainees under the DOL program and announced an intention to form a community development corporation primarily for administration of the income-producing projects.

The application for the OEO grant for the program year beginning October 1, 1969, while citing a number of problem areas which had prevented a more rapid development of the projects, forecast a significantly higher sales volume in future periods. In consonance with this forecast, the application contained a 11-month scheduled phase-in of 76 persons as employees of self-sustaining community development programs and included an estimate that the wood products projects would be in a position to sustain the employment, through sales income, of 48 persons.

Notwithstanding the various predictions, KCEOC financial statements for the period from inception of the projects in December 1967 to June 30, 1969, show gross sales of about \$135,000 and a net profit of about \$32,000. We do not consider these amounts as fully representative of the results of operations or as fully indicative of the financial position of the income-producing projects.

For instance, the statements did not take into consideration all the administrative and other KCEOC indirect costs of supporting the operation or an allocation of the

payroll costs, exclusive of training costs, associated with the 22 supervisor-type employees and 67 trainees paid out of OEO-DOL funds but directly engaged in the projects. Inclusion of these costs would substantially affect the presentation of the financial results of operations. Moreover, at June 30, 1969, a deficit balance of about \$6,000 existed in the bank account and more than \$13,000 of the \$18,000 borrowed from OEO funds to finance the purchase of materials had not been repaid.

With respect to the potential for meeting predicted economic growth, it appeared that KCEOC was experiencing continuing difficulty in obtaining contracts for wood projects. For example, upon completion of our fieldwork in November 1969, KCEOC had had no production of wood products for about 2 months. Unless conditions change significantly, the potential for development of a market big enough to sustain 48 employees, as predicted by KCEOC to occur beginning in August 1970, does not appear realistic in relation to KCEOC's past experience.

Market development and ability to compete

Our examination of bids submitted by KCEOC to prospective customers for the manufacture of certain wood products indicated that, assuming that the bid amounts were reasonably representative of product costs, the wood products project was undertaking to produce items which it may not be able to market competitively using existing facilities. As later discussed (see p. 25), actual product costs are not known. Also, there appeared to be limitations on the potential for market growth for products available through the arts and crafts store.

Wood products

From December 1967 through October 1969 the wood products project made the following sales:

<u>Type</u>	<u>Sales amount</u>
Pallets and wooden boxes	\$ 34,978
Wooden chair frames	<u>94,804</u>
	<u>\$129,782</u>

At October 31, 1969, finished goods of questionable marketability were on hand (see p. 25) and production had stopped.

KCEOC records showed that it had submitted bids to produce 302,274 wooden pallets and 33,901 wooden boxes during the period January through July 1969 and had been awarded contracts to produce 2,180 pallets and 2,559 boxes.

Our review of bid tabulations for a number of KCEOC unsuccessful bids showed that up to 31 firms were competing to produce the types of goods involved and that frequently KCEOC's bids were substantially higher than the low bid. The following table illustrates the extent of competition and the relationship between KCEOC's bid and the low bidder on seven selected items on which KCEOC submitted bids during the period January through July 1969.

<u>Case</u>	Number of <u>bidders</u>	<u>Unit price</u>		<u>Percent of KCEOC bid over low bid</u>
		<u>Low bidder</u>	<u>KCEOC bid</u>	
A	9	\$ 1.93	\$ 2.80	45
B	14	5.19	6.05	17
C	31	4.20	5.41	29
D	10	4.20	5.76	37
E	6	4.12	5.31	29
F	7	65.00	85.60	32
G	6	17.00	20.98	23

In one case not included in the above tabulation, a major company notified KCEOC that its bid for wooden pallets was 208 percent higher than the company's normal purchase price.

In another case, although KCEOC was the low bidder, the potential purchaser determined that the bid was not responsive on the basis that KCEOC did not have adequate storage space and was financially incapable of sustaining itself during the period of the contract. The invitation for bids called for monthly deliveries valued at about \$33,000 each for a period of 6 months. We were told by a KCEOC official that KCEOC had misinterpreted the delivery requirements and had assumed that the total contract was for \$33,000.

Arts and crafts store

The crafts store is dependent primarily upon the tourist trade for its business. Tourist attractions do not exist in the immediate proximity of the store; therefore, its market is dependent on travelers passing through.

The following table shows the volume of business for the year ended September 30, 1969, and the seasonal nature of the business.

Amount of sales

October 1968	\$ 1,718
November 1968	1,129
December "	1,584
January 1969	551
February 1969	326
March 1969	646
April "	1,508
May 1969	1,737
June 1969	2,194
July "	2,037
August 1969	3,020
September 1969	<u>1,467</u>

\$17,917

Attempts were made in the past to expand the arts and crafts market; however, success in this area was limited. For example, in a quarterly report for the period ended December 31, 1968, KCEOC anticipated a commitment from the State Parks Commissioner to purchase handmade items at a sales price between \$25,000 and \$50,000. This arrangement did not materialize.

Other projects

In addition to establishing projects for making products for the arts and crafts store, KCEOC has established several other income-producing projects having potential sales outlets outside of the store. These projects include contract sewing for a toy manufacturer, repair of wooden soft drink cases, and reupholstery of furniture.

Generally, these projects had not reached a stage of development at the time of our review to allow a determination of market potential.

Opportunities for improved management

During our examination we noted the following areas in which KCEOC could strengthen its management and improve its financial control of income-producing projects and thereby enhance the possibilities for developing a successful operation.

Contracting and financial management

KCEOC did not follow sound contracting procedures in contracting with its customers for wood products, except when contracting with the Government. Generally, there were no written agreements showing contract terms--price, volume, and delivery schedule--for customers other than the Government. In addition, KCEOC did not have a billing system which would ensure that all sales were recorded and collections were made. Under these circumstances, assurance is lacking that both contracting parties will have a sound basis for obtaining compliance with agreement terms and that all funds due KCEOC are being billed.

For example, KCEOC had on hand 250 wooden chair frames, produced under an informal agreement, which the customer had refused to accept. The KCEOC director informed us that the refusal was due to the products' not satisfying customer specifications and that it was doubtful that the sale of this inventory was legally enforceable.

Cost accounting and bidding procedures

At the time of our fieldwork, KCEOC did not have a cost-accounting system and was not aware of the unit costs for its various products. KCEOC informed us that its bids were based on the cost of producing a sample by some of its best workers. As previously indicated, the feasibility of KCEOC's successfully competing in the wood products line selected for manufacture had not been demonstrated. Its past bidding experience had been less than fully successful, and the current method for establishing bid prices, which, among other things, does not consider the inefficiency of trainee labor, reduces assurance that bid prices are reasonable in relation to the cost of production. We believe

that more accurate product cost information is critical to an analysis of the potential for economic development.

Production controls

We noted two instances which point to a need for KCEOC to improve its controls over the procurement-production process.

In one case, KCEOC processed an order for over \$5,300 for wooden educational toy sets made by the arts and crafts workshop division. Upon receipt of the toys, the customer found some of the material defective. After allowing credit for repairs on some items and return of others, KCEOC received payments of only \$3,316.

In another case, we were advised by a KCEOC official that lumber costing about \$25,000 was purchased for a \$22,680 contract. According to the official, because a specific type of lumber was needed, it was necessary to purchase more lumber than was required for this particular contract. The official stated that the remaining lumber was used for other contracts; however, this usage was not planned for at the time the lumber was purchased. We believe that purchases of this nature carry a high risk when firm plans for use of excess material do not exist at the time of purchase and that this case illustrates a need for KCEOC to develop sources of supply which will be responsive to its manufacturing needs.

- - - -

KCEOC and, to some extent, OEO have recognized a need for improvements. At the time we completed our field review, an OEO consultant had reviewed KCEOC's cost-accounting needs and provisions were being made to install a cost system. Also, KCEOC's proposal for the grant year ending September 1970 as approved by OEO provides for:

- an economic development business manager to be responsible for procuring raw materials, computing production costs, maintaining cost controls, and managing stock inventories and supplies,

- a contract developer to be responsible for contacting potential customers to determine their interest in purchasing products manufactured by KCEOC, and
- a contract engineer to be responsible for designing products.

The above proposals represent affirmative steps in KCEOC's economic development efforts. However, considering that the wood products manufacturing operation of KCEOC is essentially an extension of an operation which another organization previously had been unable to develop into an economically sound venture and that a comprehensive analysis of the economic feasibility of the venture had not been made, we believe that there is a need to evaluate whether a market exists for the products KCEOC has selected to manufacture at a price which will support KCEOC's cost to produce. There is also a need for a number of improvements in KCEOC's management of the program.

Recommendations to Director of OEO

We recommend that the Director of OEO

- in order to establish the feasibility of income-producing projects, provide KCEOC with the technical and management assistance necessary for determining whether KCEOC's plans for the development of economically viable enterprises are feasible and assist KCEOC in the establishment of the management improvements needed and
- regarding the wood dimension products division, require OEO's General Counsel to clarify KCEOC's legal relationship, if any, with Cannon Industries and assist KCEOC in preparing any legal documents considered necessary under the circumstances.

NON-INCOME-PRODUCING PROJECTS

The non-income-producing projects of KCEOC have been supported by DOL funds and have met the concepts of Operation Mainstream which is to provide work for those who otherwise would have no reasonable prospect of employment. As of September 1969, KCEOC had non-income-producing projects involving 149 individuals which included 137 trainees.

Road improvements are undertaken on the basis of requests of residents and availability of materials, and, on September 19, 1969, there were 56 employees engaged in the road improvement project. KCEOC reported that, during the period September 1968 to September 1969, 45 individual road improvement projects were completed throughout the county. These projects consisted of repairs to about 65 miles of road, ditching and clearing of 130 miles of right of way, repairs to eight wooden bridges, and installation of 41 culverts and 3-1/2 miles of fence.

We were informed by a KCEOC official that the home improvement project was directed primarily toward repairing and improving homes of the aged, poor people in the county on the basis of requests received and KCEOC's ability to meet such requests. As of September 19, 1969, 25 employees were engaged in home improvement projects. KCEOC reported that, during the period October 1, 1968, through September 30, 1969, 93 home improvement projects were completed.

On September 19, 1969, there were 54 employees on the custodial force. A KCEOC official advised us that the majority of custodial trainees were assigned to city and county schools and that the remaining trainees were working at KCEOC neighborhood centers or at local government agencies.

The remaining 14 trainees in the non-income-producing projects were engaged in such activities as driving children to and from the child development classes and providing assistance at KCEOC headquarters.

CHAPTER 3

OTHER KNOX COUNTY PROGRAMS AND ACTIVITIES

The General Accounting Office previously reported on the Knox County CAP on August 11, 1967 (B-130515). During our earlier review, we inquired into the accomplishments of the program and its various components and compared them with the program goals. At the time of that review, KCEOC had program components covering community center activities, early childhood development, youth activities, family development, and health education. During our most recent review, the activities of some of the earlier program components were absorbed, to varying degrees, by new program components or were terminated.

In our earlier report, we were unable to reach an informed and meaningful conclusion as to the overall effectiveness of the program because realistic standards for measurement of the program accomplishments generally did not exist.

Our most recent review revealed that, although various problem areas throughout the current program had been identified from time to time in internal management reports, comprehensive evaluations of the effectiveness of these programs were still not being accomplished by KCEOC or OEO.

Our earlier review also revealed that evaluations of the component programs had not always been made as contemplated by KCEOC in the application for funds. We found that the evaluations that had been made by KCEOC, consultants, and OEO had been limited in depth or in scope.

At the time of our earlier review, we reported that the University of Kentucky was in the process of submitting a report on the effect of the Knox County CAP. During our most recent review, we inquired into the use that had been made of the University of Kentucky report. We were informed by a KCEOC official that, although it was useful in identifying the nature of the poverty problems in Knox County, the report had been of only limited benefit in improving the Knox County programs because the thrust of the

programs had changed significantly from what it was at the time the University of Kentucky made its study.

The purpose of this chapter is to give the reader some insight into the objectives and direction of effort of KCEOC programs for other than economic development and manpower. These programs are highlighted in the following sections.

COMMUNITY CENTER PROGRAM

A principal component of the Knox County program observed during our previous review was the community center program. The goals of that program were to (1) encourage participation in common community problems, (2) broaden horizons of isolated persons, (3) help people living in isolated areas to become an active part of the society, (4) help individuals develop their potential as citizens of today's world, and (5) help people develop a sense of dignity as individuals in their homes, community, and society.

The current objectives of the program are to use the community center projects as a vehicle whereby the poor of Knox County can come together to bring about changes in the political, social, and economic structure of the county. KCEOC's grant application for 1970 stated that the objectives of the program were to provide (1) a meeting place for the community residents to come together and work on problems pertinent to the needs of the community, (2) a place where the poor could freely express their opinions concerning the causes of poverty in the county, (3) a countywide association of local action groups to bring recommendations to the KCEOC board of directors and thus provide a chance for the poor to cause changes in the program affecting them, and (4) an environment whereby all segments of the community can work cooperatively on community problems.

By letter dated October 29, 1969 (see app. II), we inquired of the Director, OEO, as to whether KCEOC's purpose and activities, as set forth in various sections of its grant application, are in consonance with the prohibitions, as contained in the EOA and implementing OEO

guidelines, against a CAA engaging in certain political activities. As of February 27, 1970, we were continuing to attempt to obtain a response to the inquiry. A copy of the OEO response, when received, will be provided to Congressman Carter.

The program in each community functions at the direction of the community center coordinator. One of the major responsibilities of the coordinator is to keep the poor in his area adequately informed about the program and other activities of the KCEOC. This objective is accomplished primarily through community meetings.

According to KCEOC's monthly and quarterly reports of activities, one of the major problems encountered in the program has been the difficulty of getting the people to understand the problems of the community rather than becoming entangled with individual problems. Other problems noted were poor attendance at meetings, strong disagreement on actions to be taken, lack of leadership initiative, and frequent turnover in staff personnel.

In connection with this program, we noted some extensive use of vehicles, which according to a KCEOC official were owned by OEO, to transport county citizens to various public meetings within and outside the county where matters concerning conditions and activities within the county were discussed. The following table identifies a number of these trips.

<u>Date</u>	<u>Number of vehicles</u>	<u>Miles traveled</u>	<u>Destination</u>
February 11, 1969	3	271	ADD ¹ Meeting, Manchester, Ky.
Do.	1	69	Poor People Rally in Knox County
February 13, 1969	1	72	Poor People Rally, Knox County
" 14, "	2	254	Do.
" 15, "	13	3,764	" " " Lexington, Ky.
" 17, "	1	356	Meeting, Frankfort, Ky.
March 11, 1969	6	832	ADD Meeting, Harlan, Ky.
" 15, "	5	2,090	" " Covington, Ky.
April 2, 1969	1	95	" " Harlan, Ky.
" 22, 1969	1	184	" " McKee, Ky.
	<u>34</u>	<u>7,987</u>	

¹Area Development District--State of Kentucky

The use of these vehicles for the purposes shown was approved by the cognizant KCEOC official, and such use of the vehicles had the implicit support of OEO's supervisor for the area.

EARLY CHILDHOOD PROGRAM

Our earlier report stated that the early childhood program (Head Start) was intended to provide nursery and kindergarten experiences to 308 children between the ages of 3 and 6 in school-type facilities provided at the various community centers. For prior years, OEO had made available about \$389,000 for this program and about \$243,000 has been earmarked for the current program year. The Department of Health, Education, and Welfare is now directly responsible for Head Start programs under the terms of a delegation of authority from OEO effective July 1, 1969.

The early childhood program has been extended several times, and the program goals have remained essentially the same. The 1970 grant application stated that about 610 eligible children live in the communities served by the program and about 900 eligible children live elsewhere in the county. The current program provides for participation by 180 children or about 30 percent of the 610 eligible to participate. The program is directed at 3-, 4-, and 5-year-old children with priority given to 5-year-olds on the basis of need.

KCEOC monthly and quarterly progress reports pointed out a number of problems with the program including such matters as the need for (1) greater parent involvement and participation, (2) improvement in daily attendance, and (3) better maintenance at several of the centers.

COMMUNITY EDUCATION

In its 1970 grant application, KCEOC stated that the objectives of its community education program were to (1) have one hundred persons receive their high school diplomas, (2) provide political education classes to target residents, instilling in them their rights as well as their responsibility as citizens, (3) create an environment whereby citizens will do their part in dealing with inter-related social, economic, and political problems, and (4) provide the poor with a sound emotional and social adjustment through enjoyment of a wide range of social relationships. In prior years, OEO made about \$47,000 available

for this program, and, for the program year ending September 30, 1970, OEO committed an additional \$20,000.

Also included under this program is a driver education project. It was KCEOC's goal to enroll about 200 target residents in this project. A KCEOC official stated that this project would include only classroom training which was designed to provide a student with the academic knowledge needed for a driving permit.

KCEOC reported that, during the 1969 program year, 89 persons had received their high school diplomas. Also, 188 others had completed the adult education program and 122 had completed the driver education project.

Several problems with the program have been identified by KCEOC. These include transportation difficulties, lack of participation by some target residents, and failure on the part of local action group members to understand the importance of earning a high school diploma.

EMERGENCY FOOD AND MEDICAL SERVICES PROGRAM

The 1970 program objectives for the emergency food and medical services program are to provide food on an emergency basis to persons suffering from malnutrition, starvation, and hunger; provide medical services to correct health problems caused directly or indirectly by malnutrition, starvation, and hunger; provide lunches for those students who, because of a lack of funds, were not participating in the school lunch program; provide assistance for purchase of food stamps, including any necessary transportation to and from the establishments issuing food stamps. For prior years, OEO made about \$56,000 available for this program, and, for the program year ending September 30, 1970, OEO has committed an additional \$43,000.

KCEOC reported that in past programs 1,556 persons received food stamps, 2,571 persons were assisted in making food purchases, milk and vitamins were furnished to 186 babies, 676 children received school lunches, and two persons received medical services. On the basis of monthly program reports, KCEOC estimated that 30 to 40 percent of the potentially eligible candidates would participate in the current program. In a grant proposal dated July 1969, the KCEOC presented statistics which showed that 1,800 families, involving about 5,900 persons in Knox County, had no income, about 2,000 families were registered and eligible for food stamps, and about 1,400 children were eligible to participate in the school lunch program.

In planning this program, KCEOC has used the concept of self-help. Program recipients, when able, are to be assigned various jobs so that they can pay, through services rendered, for the assistance they have received. For example, recipients may work in their community centers on projects which their center is sponsoring, or they might work in one of the other economic development or manpower projects.

OTHER MATTERS

During our review, we tested the support for certain program expenditures and receipts. We also sought the views of certain other organizations interested in reducing

poverty in Knox County regarding the extent of coordination between their activities and those of KCEOC. The results of our work in these areas are discussed in the following sections.

Examination of disbursements

We reviewed, on a test basis, KCEOC's record of cash disbursements for its CAP manpower revolving fund and its arts and crafts store revolving fund for the period December 1967 to September 1969. Our review did not reveal any questionable disbursements. Further, for the same period, we examined the support for all items of revenue as recorded in the fund records and traced these items into the respective bank accounts. However, as discussed earlier, we found no internal controls to ensure that all sales had been recorded.

We reviewed also, on a test basis, the support for expenditures made from grant funds for the community center program for the month of August 1969. Our review did not reveal any questionable items.

Cooperation with other organizations

During our review, we met with representatives of the local chamber of commerce and the State employment office at Corbin, Kentucky. It was the consensus of these representatives that there was a general lack of cooperation between their organizations and KCEOC. Primarily, this situation was attributed to a lack of communication or failure to get together and discuss problems such as improving employment opportunities for Knox County poor. We were unable to evaluate the impact of this lack of communication upon the Knox County antipoverty program or to determine the underlying cause of the problem. It seems, however, that greater cooperation among these organizations would strengthen the antipoverty efforts in Knox County.

CHAPTER 4

SCOPE OF REVIEW

We selected the KCEOC's manpower and economic development program for review because of its key roll in KCEOC's strategy to attack the underlying causes of poverty in Knox County and because of the large amount of funds committed to this program relative to other programs in the county. Our work, which was performed largely at KCEOC's headquarters in Barbourville, Kentucky, included visits to the sites of the manpower and economic development projects in Knox County. In addition, limited work was performed at the OEO headquarters in Washington, D.C.

We reviewed appropriate legislation and OEO and DOL policies and procedures as they concerned the CAP and Operation Mainstream. In addition, we examined program documents, correspondence, accounting records, and other pertinent records and reports, including available OEO internal auditing reports. We interviewed KCEOC officials concerning the operation of their program. We also interviewed State, county, and city officials; business and community leaders; and representatives of DOL to obtain their views as to the problems and/or effectiveness of the Knox County programs.

APPENDIXES

TIM LEE CARTER
5TH DISTRICT, KENTUCKY

HOME ADDRESS:
TOMPKINSVILLE, KENTUCKY

OFFICE ADDRESS:
1202 LONGWORTH OFFICE BUILDING
WASHINGTON, D.C

MEMBER:
COMMITTEE ON INTERSTATE
AND FOREIGN COMMERCE

SECRETARIES:
ROY C. WOOLUM
CORBIN, KENTUCKY

KATHLEEN GARNER
RUSSELL SPRINGS, KENTUCKY

Congress of the United States
House of Representatives
Washington, D.C. 20515

June 3, 1969

Hon. Elmer B. Staats
Comptroller General of the United States
General Accounting Office
441 G Street, N. W.
Washington, D. C. 20548

Dear Mr. Staats:

Several years ago it became necessary for me to request an investigation by the General Accounting Office of certain projects in my Congressional District and I was satisfied with the results.

*satisfied with
results of
investigation or
the need to ?*

It has now become necessary that I request an investigation of Knox County's anti-poverty program of which Mr. Hollis D. West is the Director. This investigation has been suggested by the Division of Economic Opportunity of the State Government in Kentucky. I also strongly recommend that this program be investigated. One area suggested for investigation by the Division of Economic Opportunity would be the DOL Programs and CAP monies as related to Cannon Industries and whether or not this project is fiscally sound enough to use Federal funds. It is my opinion that funds are not being used properly in these programs.

I would appreciate being advised as to the findings of your investigation.

With all good wishes, I am

Sincerely,

Tim Lee Carter
Tim Lee Carter



UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

CIVIL DIVISION

OCT 29 1969

Dear Mr. Rumsfeld:

Pursuant to a congressional request, we are reviewing certain activities of the Knox County Economic Opportunity Council, Inc. (KCEOC), a community action agency in Knox County, Kentucky, funded by the Office of Economic Opportunity (OEO) under title II of the Economic Opportunity Act of 1964, as amended.

One of the matters under consideration, on which we would like to receive your comments, is whether KCEOC's purpose and activities are in consonance with the prohibitions against a community action agency's engaging in certain political activities as contained in the act and in implementing OEO guidelines. Section 603(b) of the act provides, in part, that:

"Programs assisted under this Act shall not be carried on in a manner involving the use of program funds, the provision of services, or the employment or assignment of personnel in a manner supporting or resulting in the identification of such programs with (1) any partisan or non-partisan political activity or any other political activity associated with a candidate, or contending faction or group, in an election for public or party office.***"

OEO policy is discussed in OEO Instruction 6907-1 dated September 6, 1968, which provides, in part, that:

"Grantee and delegate agencies must administer OEO-assisted programs in a politically nonpartisan manner, and must avoid actions which can reasonably be construed as intended to favor one political party over another or to influence the outcome of any election for public or party office. The use of program funds, the provision of services and the assignment of personnel must not result in the identification of the program with any partisan political activity or with any nonpartisan political activity which is designed to further the election or defeat of a candidate for public or party office.***"

The KCEOC grant proposal for the program year beginning October 1, 1969, which requested funds totaling \$395,000, was approved by the OEO Mid-Atlantic Regional Director on August 22, 1969. Our examination of the

grant proposal has raised questions as to whether the goals of the program are fully compatible with existing restrictions on political activity. Illustrative of the matters of concern to us are the following statements extracted from the proposal.

"Programs of the Knox County Economic Opportunity Council, Inc., serves one common ideology; namely, that poor people are poor because they lack power, and control. Programs, besides dealing with the 'consequences' of powerlessness, are but simple vehicles to promote an ideology. The primary purpose of the administrative component, is then, to maximal utilize new and existing programs to promote ideological commitments necessary to overcome poverty in Knox County, Kentucky.

* * * * *

"Programs may take the form of and be called Early Childhood, Adult Education, Health or Economic Development, but they must not only be designed to meet consequences but its real cause as well. While an Economic Development Program provides training, income and related services to someone unemployed, these ends seem fruitless without political and economic organization. It is easy to imagine a well-trained, employed group of people who are totally powerless.

* * * * *

"*** a major problem is overcoming complacency and misunderstanding of both staff and the poor. And one must understand that it is difficult to get both groups to overcome the fear of more and greater repression, it is difficult to get people to think that a man who pats you on your back or gives you five dollars on or before election day, may not be and most assuredly is not their friend. Both staff and poor people must learn a new picture - one that presents alternatives and conflicts, that asks new and probing questions, that shows direction and strategy for community organization - a picture that illustrates that lack of power and control are the true causes of poverty, and obtaining these is the only solution. Poor people can make decisions only when this picture of truth is properly drawn. Administrative staff, as do all Knox County Economic Opportunity Council staff, assist in drawing the picture."

In discussing the Community Center project the proposal states:

"The purpose of the Community Center Program is to provide the poor of Knox County with a vehicle, whereby they can bring about a change in the political, social, and economic structure of this county. The Community Center Program has been instrumental in creating a concerned constituency of poor people - people who are aware of the problems that have plagued Knox County for the past 100 years, and want to do something constructive to correct them.

* * * * *

"The Community Center Program serves as an instrument to create changes for Knox County. The Community Center Coordinator has the responsibility for seeing that the target groups are kept well informed about the social, political, and economic conditions of Knox County."

In addition to the above statements, we note that the proposal contains numerous references to politically-related matters. For example, one weakness of the program is cited as being that the Local Action Groups have failed to make maximum use of their potential to bring about the needed change in the local power structure. The KCEOC newsletter is cited as a vehicle to, in part, "expose the insincere, the frauds and charlatans, as well as a place to praise friends"; and the Political Education Program, while being described as a non-political course to enlighten the people of Knox County about public issues, has as a mission "to acquaint target residents about those political leaders, who have supported them in the past."

While we have not developed evidence of overt improper political activity by KCEOC, the request that we undertake a review at KCEOC resulted, in part, from charges that such activity has occurred. We did note that KCEOC took part in the symbolic presentation of a mule to the Nations' Republican Governors, an action which apparently caused embarrassment to the Governor of Kentucky, and that this animal is currently in the custody of KCEOC. Also, we noted that an OEO analysis of the KCEOC's program made in August 1969 indicated that the Governor of Kentucky has ascribed responsibility to the Executive Director of KCEOC for the defeat in a primary election in Knox County of all but one of the candidates backed by the Governor. Reprisals reportedly threatened by the Governor in an effort to force the removal of the Executive Director consisted of discontinuing various benefits to the county, such as the highway construction program, with the objective of decreasing the flow of money into the county.

In view of the questions that have arisen as to the goals and activities of KCEOC, we would appreciate your early advice as to whether KCEOC meets statutory restrictions on political activity and whether its goals and activities are in conformance with OEO requirements.

Sincerely yours,

/s/ Henry Eschwege
Henry Eschwege
Associate Director

The Honorable Donald Rumsfeld
Director, Office of Economic Opportunity