REPORT OF THE COMPTROLLER GENERAL OF THE UNITED STATES

Selection Process Used For First Round Of Local Public Works Program-- Adequate But Some Problems Experienced

This report provides information on whether the:

--Regulations and procedures followed by the Economic Development Administration in implementing the local public works program were in accordance with congressional intent.

--Overall policies and procedures followed in selecting projects were adequate.

--Computer methodology used in processing and scoring project applications was adequate.

--Unemployment data used in allocating funds to the States and in scoring and ranking the projects was unreliable.

CED-78-36

MARCH 20, 1978

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

B-126652

The Honorable Jennings Randolph, Chairman
Committee on Environment and Public Works
United States Senate

The Honorable Harold T. Johnson, Chairman
Committee on Public Works and Transportation
House of Representatives

Pursuant to an agreement reached with your offices, we are transmitting a report on our review of the process used by the Department of Commerce's Economic Development Administration in selecting grant applications to be funded under round one of the local public works program authorized by title I of the Public Works Employment Act of 1976. We issued an interim report (CED-77-48) to you on our observations concerning this program on February 23, 1977.

Our review was made pursuant to requests received from 75 Members of Congress whose principal areas of concern related to the allocation of program funds and selection of projects.

Copies of this report are being sent to the 67 Representatives and 8 Senators who requested us to review this program. Copies are also being sent to the Acting Director, Office of Management and Budget, and to the Secretaries of Commerce and Labor.

Elmer B. Staats

Comptroller General
of the United States

REPORT OF THE
COMPTROLLER GENERAL
OF THE UNITED STATES

SELECTION PROCESS USED FOR FIRST ROUND OF LOCAL PUBLIC WORKS PROGRAM--ADEQUATE BUT SOME PROBLEMS EXPERIENCED

D I G E S T

At the request of 75 Members of Congress, GAO reviewed the Economic Development Administration's process of (1) allocating funds and (2) selecting projects to be funded under the 1976 Local Public Works Program. Under the program, the agency makes grants to States and local governments for 100 percent of the cost of public works facilities.

WERE REGULATIONS IN ACCORDANCE WITH CONGRESSIONAL INTENT?

GAO's review showed that the agency's rules and regulations governing the allocation of funds and selection of projects generally reflected the intent of the Congress. A lack of data, however, prevented the agency, in selecting projects, from complying with the legal requirement to consider the unemployed or underemployed in construction and related industries. (See pp. 4 to 9.)

Both legislative Committees should consider requesting the Secretaries of Commerce and Labor to advise them of the problems involved in producing construction unemployment data so that they can decide whether legislation requiring the development of the data should be introduced in the Congress. (See p. 10.)

WERE SELECTION PROCEDURES AND COMPUTER METHODOLOGY USED ADEQUATE?

The Local Public Works Capital Development and Investment Act of 1976 imposed strict schedules on developing and implementing the program so that jobs would be created quickly to help stimulate the economy. GAO concluded that, in light of such requirements and objectives, the selection process developed was a reasonable one. This is not to say that the process was

without failings or that some entirely different process may have been better. Indeed some problems were experienced in implementing the process and many selection errors were made.

Should there be a need for a similar program in the future, the legislative Committees, in developing the authorizing legislation, ought to allow the administering agency more time to develop, test, and implement its regulations and procedures. (See p. 30.)

This GAO report shows that:

--Generally the computer methodology used in scoring and ranking projects was adequate. However, numerous errors were made in putting data into the computer. One or more errors were made for an estimated 16 to 30 percent of the Pennsylvania projects scored and ranked. Of the more than 80 projects totaling about $96 million which the agency said were rejected erroneously nationwide, about half involved computer input data errors. (See pp. 16 to 18.)

--Limited time and staff available to review the numerous applications meant that the agency could make little more than cursory reviews of the data received. The agency's Atlantic Regional Office engineers were allowed only 30 minutes to review, among other matters, the applicants' (1) estimates of project costs and (2) ability to begin construction within 90 days of project approval as required by the act. Construction bids varied from estimates by over 20 percent for 11 of 22 projects reviewed, and the construction deadline was met by beginning some minor construction phase for 5, or 18 percent, of 28 started projects reviewed. (See pp. 18 to 23.)

--Selection procedures followed to avoid undue concentrations of grant funds in particular areas were unwritten, improvised, and inconsistently followed. Selection errors were also made in carrying out these procedures. (See pp. 24 to 29.)

WERE LABOR STATISTICS RELIABLE?

Reliability of unemployment estimates is questionable:

--Unemployment estimates used in allocating funds to States are developed by a method relying heavily on counts of unemployment insurance claimants. Differences in State unemployment insurance programs, inaccuracies in counts of claimants, and weaknesses in the estimates of the unemployed not covered by unemployment insurance affect the consistency of the data.

--Unemployment data used in selecting projects was even less reliable because (1) the reliability of estimates generally decreases with the size of the area and (2) estimates for many areas were developed by apportioning county estimates based on relationships existing at the time of the 1970 census.

--The reliability problems of the estimates were made worse by the way they were used in the program; that is: (1) estimates used by applicants were obtained from different sources, covered different time periods, and were not adjusted for seasonal fluctuations; (2) applicants gerrymandered project areas to obtain the most favorable unemployment data; and (3) the agency converted estimates of the unemployed to logarithms to reduce the relative importance of large areas.

The Bureau of Labor Statistics has taken and is proposing action to increase the reliability of unemployment data, but longstanding problems which do not lend themselves to easy solutions remain. (See pp. 31 to 42.)

CORRECTIVE ACTIONS TAKEN PRIOR TO IMPLEMENTING SECOND ROUND OF AWARDS

GAO issued an interim report to the legislative Committees on some problems experienced in allocating funds and selecting projects and on various alternatives proposed to deal with these problems. In May 1977, amendments were enacted which corrected many of the problems experienced

and authorized a second round of funding for the program. In implementing round two of the program, the agency allocated funds to substate areas and allowed the applicants to choose the the projects they wanted funded.

AGENCY COMMENTS

The Department of Commerce said that GAO's report on the round one program treated the agency equitably. It did, however, express reservations about generalizing the findings regarding the Atlantic Regional Office experience to the entire country. GAO's position on this matter is discussed on p. 43. The comments of the Departments of Commerce and Labor are included as appendixes I and II.

Contents

ABBREVIATIONS

BLS	Bureau of Labor Statistics
CETA	Comprehensive Employment and Training Act of 1973
EDA	Economic Development Administration
GAO	General Accounting Office
LPW act	Local Public Works Capital Development and Investment Act of 1976
SESA	State Employment Security Agency

CHAPTER 1

INTRODUCTION

Title I of the Public Works Employment Act of 1976, which is entitled the Local Public Works Capital Development and Investment Act of 1976 (LPW act), was enacted on July 22, 1976. The LPW act authorizes the Secretary of Commerce, acting through the Economic Development Administration (EDA), to make grants to States and local governments for 100 percent of the costs of public works projects to provide (1) employment opportunities in areas of high unemployment through construction or renovation of useful public facilities and (2) a stimulus to the national economy.

On October 1, 1976, the Congress appropriated $2 billion to carry out the provisions of the LPW act. EDA published its initial and revised implementing regulations in the Federal Register on August 23 and October 20, 1976, respectively, and accepted applications from October 26 to December 3, 1976.

On December 23, 1976, the Secretary published in the Federal Register a list of about 2,000 applications for about $2 billion of grants that had been selected by EDA. Those selected were to receive a final review before being approved for funding. EDA records showed that, as of December 27, 1976, about 25,000 applications for about $24 billion had been received, of which about 22,000 applications for about $20 billion were scored (i.e., reviewed and assigned a numerical grading value).

During January and February 1977, GAO received requests from 75 Members of Congress to review the local public works program. The principal areas of concern of the Members related to the policies and procedures followed by EDA in allocating program resources and selecting projects for funding. Our interim report (CED-77-48, Feb. 23, 1977) to the Chairmen, Senate Committee on Environment and Public Works and House Committee on Public Works and Transportation, summarized information on some problems experienced in allocating funds and selecting projects to be funded and on various alternatives proposed to deal with these problems. The report was issued to assist the Committees and Members of Congress in their deliberations on proposed legislation to amend the LPW act.

The LPW act was amended by the Public Works Employment Act of 1977 (title I of Public Law 95-28) enacted on May 13, 1977. The 1977 act authorized an additional appropriation of $4 billion to help fund the backlog of applications and

made a number of program changes dealing with most of the problems discussed in our interim report including

--eliminating the provision requiring that 30 percent of the funds appropriated be used to finance projects in areas having unemployment rates at or below the national unemployment rate,

--eliminating the provision permitting applicants to include unemployment data of adjoining communities from which the labor force will be drawn,

--requiring unemployment data be for a 12-month period rather than a 3-month period,

--providing a separate set-aside of funds to be used for Indian tribes, and

--providing that applicants submitting two or more applications shall indicate their priority for each such project.

Also EDA completely revised its regulations regarding the procedures to be followed in selecting projects to be funded.

OBJECTIVE AND SCOPE OF REVIEW

Our review was directed primarily at the major concerns raised by the Members of Congress requesting the review, which were whether the

--regulations and procedures followed by EDA in implementing the program were in accordance with congressional intent,

--overall policies and procedures followed in selecting projects were adequate,

--computer methodology used in processing and scoring project applications was adequate, and

--unemployment data used in allocating funds to the States and in scoring and ranking the projects was reliable.

We made our review at the headquarters office of EDA and the Department of Labor's Bureau of Labor Statistics (BLS) in Washington, D.C.; at EDA's Atlantic Regional Office in Philadelphia, Pennsylvania; at State employment security offices in New Jersey and Pennsylvania; and at 21 grant

recipients' offices in Maryland, New Jersey, Pennsylvania, and Washington, D.C., where we reviewed 28 of their projects. We reviewed pertinent laws, regulations, policies, and procedures governing the program and the development of labor statistics; examined pertinent agency records; and interviewed numerous Federal, State, and local officials. We also noted how the pertinent laws, regulations, policies and procedures governing the program were changed in the second round program funding.

EDA has six regional offices. The Atlantic Regional Office, which serves 13 eastern States plus Washington, D.C., Puerto Rico, and the Virgin Islands, was selected for review primarily because of the large number of applications it processed--about 6,400, or 30 percent, of the 22,000 applications EDA processed nationally.

CHAPTER 2

EDA'S PROGRAM REGULATIONS IN GENERAL ACCORD WITH CONGRESSIONAL INTENT

The Economic Development Administration's rules and regulations governing the allocation of funds and selection of projects for the first round of funding generally reflected the intention of the Congress in passing the Local Public Works Capital Development and Investment Act of 1976. Because of the lack of adequate data, however, EDA was unable to give consideration to the unemployed or underemployed in the construction and construction-related industries in selecting projects, as required by section 107 of the LPW act.

A brief description of some of the major provisions of the LPW act relating to the allocation of funds and selection of projects and of EDA's implementing regulations and procedures follows.

PROVISIONS OF THE LPW ACT

Section 107 of the LPW act required that the Secretary of Commerce, not later than 30 days after enactment, prescribe the rules, regulations, and procedures necessary to carry it out. This section also provided guidance on the criteria to be followed in the selection process by requiring that:

--Such rules, regulations, and procedures assure that adequate consideration be given to the relative needs of various sections of the country.

--The Secretary consider among other factors (1) the severity and duration of unemployment in proposed project areas, (2) the income levels and extent of underemployment in proposed project areas, and (3) the extent to which proposed projects would contribute to the reduction of unemployment.

--In considering the extent of unemployment or underemployment, the Secretary consider the amount of unemployment or underemployment in the construction and construction-related industries.

Additional provisions of the LPW act regarding the selection process were that:

--The Secretary give priority and preference to public works projects of local governments.

--The Secretary make a final determination with respect to each application for a grant within 60 days after he received such application.

--Applicants give assurance that onsite labor could begin within 90 days of project approval.

--Applicants should (1) relate their requests to existing approved plans and programs of a community or regional development nature and (2) where feasible, make requests which promote long-range plans and programs.

--Not less than one-half of 1 percent or more than 12.5 percent of all amounts appropriated to carry out title I be granted for projects within any one State, except that in the case of Guam, Virgin Islands, and American Samoa, not less than one-half of 1 percent in the aggregate be granted for projects in all three jurisdictions.

--If the national unemployment rate equaled or exceeded 6.5 percent for the 3 most recent consecutive months, the Secretary expedite and give priority to applications from State or local governments having unemployment rates for the 3 most recent consecutive months in excess of the national unemployment rate. Seventy percent of all amounts appropriated to carry out the program were required to be granted to projects given this priority.

--After giving projects the priority just stated, the Secretary give priority to applications from State or local governments having unemployment rates for the 3 most recent consecutive months in excess of 6.5 percent, but less than the national unemployment rate. Thirty percent of all amounts appropriated to carry out the program were to be used to fund projects having unemployment rates at or lower than the national rate.

RULES AND REGULATIONS PROMULGATED BY EDA FOR ALLOCATING FUNDS AND SELECTING PROJECTS

EDA published its regulations, along with its program guidelines, in the Federal Register on August 23, 1976. The initial regulations and guidelines were discussed in hearings held by the Subcommittee on State, Justice, Commerce, the Judiciary and Related Agencies, Senate Committee on Appropriations, and in joint hearings held by the Subcommittees on Economic Development and on Investigations and

Review, House Committee on Public Works and Transportation. Several changes were made and the revised regulations were republished in the Federal Register on October 20, 1976.

Formula used to allocate funds to the States

Subject to minimum and maximum statutory limits of $10 million and $250 million, EDA established planning allocation ceilings for each State by distributing 65 percent of the funds available for distribution on the basis of each State's share of the number of unemployed in the Nation and 35 percent on the basis of the relative severity of unemployment in 21 States with unemployment rates exceeding the national rate.

As discussed in our interim report, we reviewed the allocation formula to determine whether it complied with the LPW act and found that it was legally permissible. Also, section 105 of the Public Works Employment Act of 1977 amended the LPW act to require the use of this allocation formula for additional appropriations authorized, except that 35 percent of the funds are to be distributed to States with unemployment rates above 6.5 percent.

Funding distribution within States

In accordance with section 108 of the LPW act, EDA regulations provided that (1) 70 percent of all amounts appropriated to carry out the LPW act be used to fund public work projects in those areas of a State having an average unemployment rate for the 3 most recent months above the average national rate for the same period, and that (2) 30 percent go to projects in areas with average unemployment rates above 6.5 percent for the 3 most recent months, but less than or equal to the average national rate for the same period.

Using a project selection formula, EDA ranked the projects falling within the 70-percent category separately from those falling within the 30-percent category for each State. In this way EDA attempted to maintain the 70-30-percent requirement nationally. Certain adjustments and exceptions were made, however, because in some cases--most notably Puerto Rico--there were no applications from areas which fell within the 30-percent category.

On receipt of applications, EDA regional office personnel performed a preliminary screening review to determine whether (1) the project was eligible, (2) the application was properly prepared, and (3) all required material was provided. This review was to be completed within 5 days of the receipt of the application.

Project selection formula

Once screened, the projects were scored according to a project selection formula which considered seven factors. Four factors were used to compute a basic score and three additional factors were considered which could increase the basic score.

The four factors making up the basic score were:

--The number of unemployed workers in the project area 1/ averaged over the 3 most recent months for which data was available. This factor was weighted 30 percent.

--The average rate of unemployment in the project area for the 3 most recent months for which data was available, weighted 25 percent.

--The labor intensity of the project (i.e., the relation of total labor cost to total project cost), weighted 30 percent.

--The per capita income in the applicant's political jurisdiction, weighted 15 percent.

A project's basic score was increased (up to a maximum of 20 percent) if it (1) provided long term benefits to the community, (2) was sponsored by a local government unit, or by a special purpose government unit, and (3) related to an existing community plan.

The data for projects selected for processing was entered into a computer by EDA and ranked according to the prescribed formula. Once ranked, EDA regional office teams, made up of specialists such as engineers and environmentalists, reviewed the highest-ranked projects--an estimated 3,500 such reviews were made.

The final selection of projects was made by a selection committee composed of EDA headquarters and regional officials. The committee's selection of projects from each State was based primarily on ranking of projects within the 70-percent category and within the 30-percent category. However,

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1/ In accordance with sections 108(e) and (f) of the LPW act, the project area was defined without regard to political boundaries and could be a portion of a political jurisdiction or could include adjoining areas.

projects which ranked below others were selected in many cases to avoid undue concentration of funds in a particular county or city.

To avoid concentrating funds in a particular county or city, EDA established a so-called "benchmark" based on the relationship between the number of unemployed workers in a jurisdiction and the number of unemployed workers in the State or county (in some cases population data was used in lieu of unemployment data). That is, if 10 percent of a State's unemployed workers resided in a county, projects would be selected according to their rank until the level of grants awarded in that county exceeded 10 percent of the State's planning allocation. Once the benchmark was exceeded, no additional projects would normally be approved for that county. (See pp. 24 to 29 for a further discussion of the benchmark procedures.)

The projects selected were published in the Federal Register on December 23, 1976, at which time the applicants were put on notice that selection did not constitute final approval as each project was subject to further review to insure that it complied with all provisions of the LPW act.

COMPARISON OF REGULATIONS WITH LEGISLATIVE REQUIREMENTS

In reviewing EDA's regulations and procedures governing the allocation and selection of projects to determine whether they were in accordance with the intent of the Congress in passing the LPW act, we noted one major problem area. EDA's selection process did not address the requirement of section 107 of the LPW act that consideration be given to the unemployment or underemployment in the construction and construction-related industries in selecting projects for funding. This was not done because, according to EDA, construction industry unemployment data is not available on a consistent basis for either State or substate areas.

The lack of such data was confirmed by officials of the Bureau of Labor Statistics, who said that BLS develops annual and monthly construction unemployment data on a national basis only. A BLS official said that the sampling used to develop

the data does not yield statistically valid estimates below the national level. 1/

In testimony before the Subcommittee on Economic Development of the Senate Committee on Environment and Public Works in February 1977, the former Assistant Secretary for Economic Development stated that past studies have found that construction unemployment tends to increase with increasing general unemployment and to decrease when general unemployment declines. Thus, he said that using general unemployment data implicitly took unemployed construction workers into account.

In discussing this matter with EDA and BLS officials, we were told that the only studies available comparing construction unemployment with general unemployment are for the Nation as a whole; i.e., nationwide unemployment in the construction industry tends to follow nationwide general unemployment. Without the benefit of any studies showing the extent to which this premise holds true for individual communities, we do not believe it can be assumed that unemployment in the construction industry would necessarily rise and fall with the general unemployment situation in individual communities.

CONCLUSIONS

EDA's rules and regulations governing the allocation of funds and selection of projects generally reflected the intention of the Congress in passing the LPW act. However, the lack of adequate data for unemployment and underemployment in the construction and construction-related industries prevented EDA from complying fully with section 107 of the LPW act.

One of the major purposes of the LPW act is to attack the high unemployment experienced in the construction industry. Therefore, the lack of unemployment data for the construction industry below the national level is a particularly distressing problem since without such data no assurance can be given that program resources are targeted to the areas with the severest construction unemployment problems.

1/ According to a staff official of the National Commission on Employment and Unemployment Statistics (see pages 37 through 38 for a brief description of the Commission and its responsibilities), the Commission plans to study the feasibility of developing unemployment statistics by industry, including the the construction industry, at the State level.

MATTER FOR CONSIDERATION BY THE COMMITTEES

The Federal Government has relied on public works programs in the past to help combat unemployment and will probably use them in the future. With this as a consideration, the Committees may wish to request the Secretaries of Commerce and Labor to advise them of the problems involved in producing unemployment data for the construction and construction-related industries for State and local areas and what the possible solutions are to the problems identified. With this information, the Committees could then decide whether legislation should be introduced in the Congress which would require the development of construction unemployment data for future use.

CHAPTER 3

PROJECT SELECTION PROCESS--GENERALLY ADEQUATE BUT SOME PROBLEMS EXPERIENCED

The Local Public Works Capital Development and Investment Act required the Economic Development Administration to approve or disapprove grant applications within 60 days of their receipt. The selection process used by EDA enabled it to comply with this requirement despite the fact that it received some 25,000 applications--a volume far greater than anticipated 1/--and at the same time give consideration to the various objectives the Congress established for the program.

In this context the selection process used by EDA--the use of a formula to score and rank projects, the reliance upon certifications and assurances provided by applicants concerning compliance with various laws and regulations, and the procedures followed to avoid undue concentration of grant funds--was a reasonable one in view of the tight program-implementation time frame required by the LPW act. However, problems were experienced as described below.

The computer methodology followed by EDA in scoring and ranking projects was generally adequate. However, on the basis of our review of the computer input data for a scientifically selected sample of Pennsylvania projects, we believe that many errors were made in putting data into the computer. Based on the sample, we estimate that EDA personnel made one or more errors, some significant, some not, in the input data for 16 to 30 percent of the Pennsylvania projects scored and ranked. Although we could not determine the effect these errors had on the selections made in Pennsylvania, we believe that the errors could have resulted in some incorrect selections and rejections. Nationwide, EDA has identified over 80 projects totaling about $96 million which were erroneously rejected--we noted that about one-half of the rejections were because of input data errors.

In order to meet the LPW act requirement that a final determination be made regarding each application within 60 days after it is received, EDA required applicants to provide assurances that various laws and program requirements would

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1/ On August 25, 1976, the former Assistant Secretary for Economic Development advised the Subcommittee on State, Justice, Commerce, the Judiciary and Related Agencies, Senate Committee on Appropriations, that as many as 6,000 applications might be received.

be complied with and that the information supplied was accurate to help minimize review time. The limited time and staff 1/ EDA had to review the large number of applications prior to selection meant that little more than cursory reviews could be made of the data received.

EDA's Atlantic Regional Office allowed its engineers only 30 minutes to review, among other things, the reasonableness of the applicants' cost data and ability to begin construction of their projects within 90 days. Bids for 11 of the 22 projects reviewed for which data was available varied from cost estimates by over 20 percent and at least 5 of the 28 projects reviewed (all of which reportedly started within the required 90 days), or 18 percent, were able to meet the 90-day construction deadline through the initiation of some minor phase of the construction work.

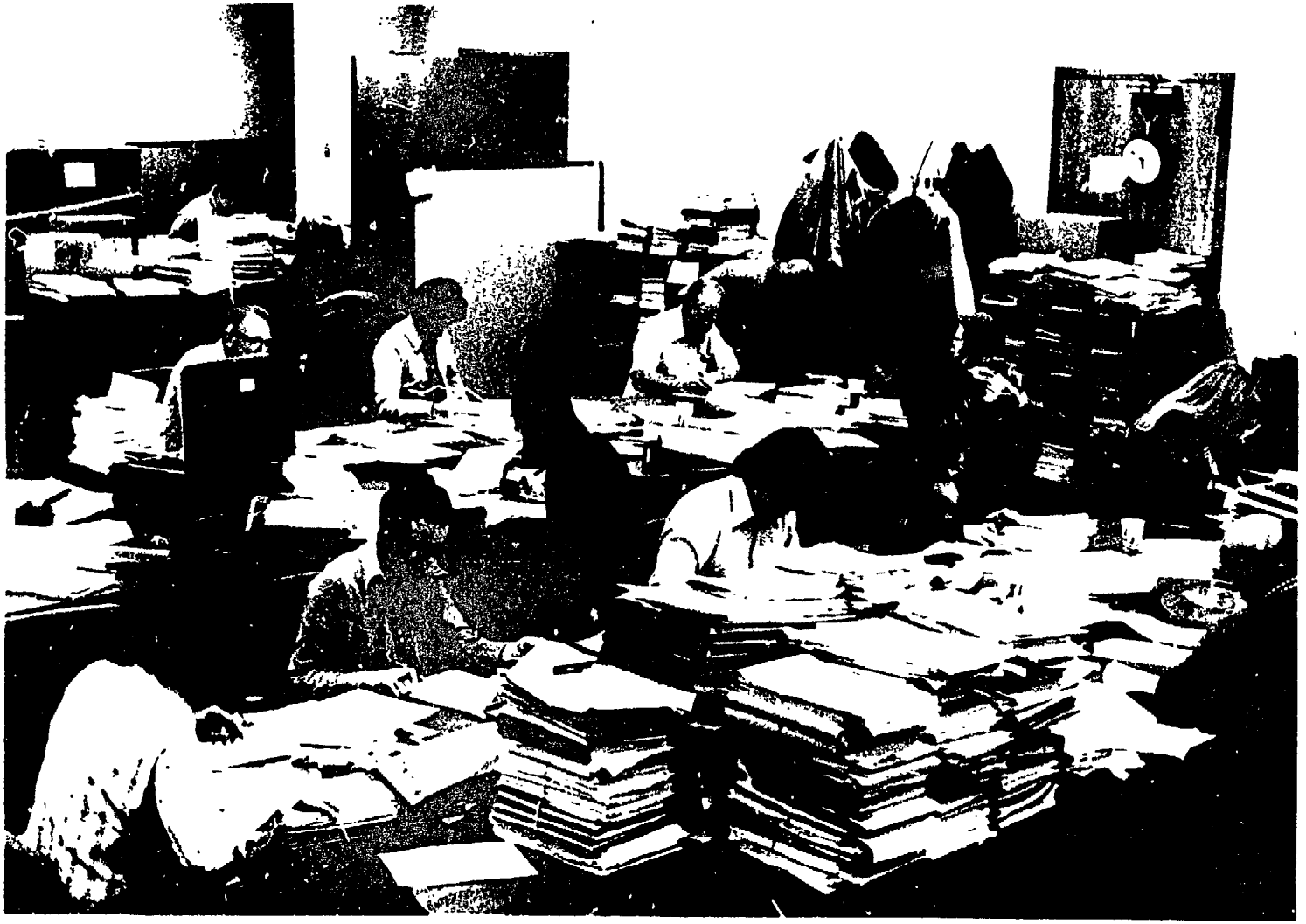
Problems were also experienced in the selection procedures EDA followed in attempting to avoid undue concentrations of grant funds--the procedures were unwritten, improvised, and inconsistently followed. Selection errors were also made in implementing these procedures.

EDA completely revised its selection process for the second round of funding appropriated for the program. In essence, in round two EDA allocated funds to substate areas and let the applicants select which of their projects should be funded. According to the Secretary of Commerce, this change was made to facilitate local decisionmaking and to produce a more equitable and predictable distribution of funds. In round one EDA selected the projects themselves.

The following photographs illustrate the activity generated by the program in EDA's Western Regional Office.

1/ Prior to the initiation of the program, EDA had a staff of 765 personnel. This staff was supplemented by about 240 additional employees hired to help implement round one of the program.

"GOLD RUSH AT REGION'S GATE" WAS EDA CAPTION FOR THIS PHOTOGRAPH SHOWING CITY AND COUNTY OFFICIALS WAITING TO ENTER WESTERN REGIONAL OFFICE WHEN DOORS OPENED AT 8 A.M.



APPLICATIONS BEING LOGGED IN AT EDA'S WESTERN REGIONAL OFFICE.

EDA PHOTOGRAPH

EDA PHOTOGRAPH

REGIONAL MANAGER OF EDA'S WESTERN REGIONAL OFFICE HELPING LOG IN APPLICATIONS.

COMPUTER METHODOLOGY ADEQUATE BUT NUMEROUS ERRORS MADE IN THE INPUT DATA USED

The computer data processing methodology used by EDA was generally adequate. However, on the basis of our review of the computer input data for a sample of Pennsylvania projects, we estimate that one or more errors were made for 16 to 30

percent of the projects scored and ranked. 1/ Nationwide, EDA identified over 80 projects totaling about $96 million which were not selected in the first round of funding because of some form of error, about half of which involved computer input data. On the basis of our analysis of the errors and discussions with EDA officials, we believe that the large number of errors made are attributable mainly to the limited time and staff EDA had to process the large volume of applications received.

Analysis of computer processing methodology

In analyzing EDA's computer processing methodology, we (1) reviewed such documents as system flow charts, source data documents, procedural instructions for data preparation and entry, computer program flow and processing descriptions, data editing, and error procedures and (2) interviewed responsible EDA officials from the data processing area and the Office of Public Works--the main user of the system outputs. Of particular interest to us in our review was the methodology used to score and rank projects and the quality and reliability of the data items used in the scoring and selection process.

The scoring methodology was reviewed by examining in detail the computer program used to calculate the project scores which were the primary basis used in selecting projects. The program logic and mathematical technique were determined to be reasonable and accurate.

The quality and reliability of the data items used in the scoring and selection process were assessed by reviewing the input data for a sample of projects in Pennsylvania and by analyzing the reasons given for the errors made for the more than 80 projects identified as being erroneously rejected. Our findings relating thereto follow.

Computer input data error rate high

To verify the reliability of the input data used in the computer program for scoring projects, we scientifically selected a random sample of 150 of the 1,394 Pennsylvania

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1/ Pennsylvania was selected for review primarily because of its high planning allocation and large number of project grants applied for. We believe the error rate found in Pennsylvania would be representative of the other States and areas covered by the Atlantic Regional Office since all their applications were processed by the regional office in Philadelphia.

projects scored and ranked by EDA, 7 of which were selected for funding. For each application, we examined 15 data items used in scoring and selecting projects and traced these items to the source documents.

We found that one or more errors were made for 35 of the 150 projects sampled (23 percent). Using statistical sampling techniques, we estimate that, on the basis of the error rate found in our sample, there is a 95-percent chance that from 16 to 30 percent of the 1,394 projects scored and ranked by EDA, or from 223 to 418 projects, had location and/or scoring data errors.

The data items reviewed were those which, if incorrect, could result in project selection errors. Such items were reviewed as project location (one way this item could affect selection was in the development of benchmarks), per capita income, and number and rate of unemployed.

Some errors found were minor and had no effect on the selections made, while others were more significant and could have affected the selections. Whether an error would affect a project's selection, however, depends not only on the significance of the error but also on the project's ranking; i.e., a minor error for a high-ranking project not selected could have prevented its selection, whereas a similar error for a low-ranking project would have no affect on its selection.

It was not practicable to determine the effect the errors found would have had on the selections because this would have required redoing the entire selection process for the State of Pennsylvania. We believe, however, that the errors would have resulted in some incorrect selections and rejections.

For example, the 150 sampled projects included 7 that were selected, 2 of which contained data errors. In one case, the error was insignificant and had no affect on its selection. In the other case, however, several errors were found, one of which was that the project was incorrectly included in the 30-percent category instead of the 70-percent category. Had the project been correctly classified, it would have ranked low in the 70-percent category and probably would not have been selected.

EDA recognized that a number of projects were rejected erroneously and supported legislation to authorize a special set-aside of funds to be used for those projects in round two. Public Law 95-28 authorized $70 million for this purpose. As of June 13, 1977, EDA identified over 80 projects totaling

about $96 million which were erroneously rejected. 1/ Of these, 17 projects totaling about $30 million were in the Atlantic Region, 21 and 31 percent of the national totals respectively. Our analysis of reasons cited for the errors made showed that about one-half involved the use of incorrect location and scoring data information.

EDA officials told us that one of the major reasons for the errors was that the application form used did not request the applicant to identify the location of the project. As a result, EDA personnel generally used the applicant's address which frequently differed from that of the project.

On the basis of our analysis of the errors and discussions with EDA officials, it appears that other basic causes of the errors were the lack of sufficient experienced staff and the lack of sufficient time to develop and test the selection process and to handle the large volume of applications.

LIMITED REVIEW OF APPLICATIONS MADE PRIOR TO SELECTION

In order to comply with the legislative requirement that project applications be processed within 60 days of their receipt, EDA devised a system whereby applicants would supply EDA with certifications and assurances that various laws and program requirements would be complied with and information supplied was accurate. EDA generally accepted the data supplied by applicants with little or no verification and with only a limited review.

While the system helped EDA to comply with the 60-day processing requirement, we found problems, as discussed below, relating to the accuracy of the data supplied by the applicants concerning estimates of project costs and ability to begin construction within the required 90 days.

Further the Commission on Federal Paperwork, 2/ while generally applauding the system for its ability to reduce

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1/According to EDA officials, an unknown number of other projects erroneously rejected were subsequently selected when funds became available because certain projects selected on December 23 did not receive final approval. These erroneously rejected projects were not included on the June 13 listing since they had already been funded.

2/A report of the Commission on Federal Paperwork, Public Works, June 10, 1977.

paperwork and red tape, questioned whether all applicants were sufficiently aware of the requirements of the laws they certified they could comply with.

Construction bids varied substantially from applicants' estimates

EDA's Atlantic Regional Office processed about 6,400, or 30 percent, of the 22,000 applications EDA scored and ranked nationwide. Project applications were scored and ranked as they were received and EDA regional office teams, made up of specialists such as engineers and environmentalists, made reviews of the highest ranked projects. EDA estimated such reviews were made for 3,500 applications nationwide.

In order to cope with the volume of applications, engineers in EDA's Atlantic Regional Office told us that they were allowed 30 minutes to review the applications for a number of items including the reasonableness of estimated project costs and whether construction of a project could be started within 90 days of grant approval. EDA's headquarters instructions to its engineers regarding cost estimate reviews were that

> "There is neither time nor data available to discover any but flagrantly unreasonable costs, which indicate that the application was carelessly or falsely prepared."

Notwithstanding these instructions or the limited review time imposed, EDA's regional office public works officers were required to certify that the estimated project costs were reasonable before grants were approved.

EDA officials and a representative of a professional construction cost estimating firm told us that a competent estimator should be able to come within 10 percent of the actual construction costs of a project if the estimate is based upon plans in the schematic or preliminary stage. The EDA officials said that the estimates should improve as the plans approach completion.

Of the 22 projects we reviewed where bid data was available, 14 had construction bids which varied by more than 10 percent from the estimated costs, 11 of which varied by more than 20 percent, as shown below.

Project	Estimated construction costs (note a)	Acceptable low bid (note b)	Variance over under (-) (note c)	Percent over under (-)
A	$ 224,290	$ 332,000	$ 107,710	48
B	245,000	306,936	61,936	25
C	4,718,903	6,235,665	1,516,762	32
D	358,000	159,868	-198,132	-55
E	505,482	652,700	130,658	26
F	208,000	318,600	110,600	53
G	922,500	1,349,000	426,500	46
H	310,000	226,700	- 83,300	-27
I	636,675	797,675	161,000	25
J	492,757	597,537	104,780	21
K	514,036	651,631	137,595	27

a/Includes costs of demolition where applicable, but does not include costs for items such as architect and engineering fees and applicants' administrative expenses which were generally not let for bid.

b/In some instances, projects had to be scaled down and new bids solicited. In such instances, the low bid for the original project proposal is shown.

c/Generally, provision for funding contingencies of up to 10 percent of total project costs were allowed. Such funds could be used to help meet cost overruns.

Reliable cost estimates were important because, once the grant was approved, EDA generally did not change the amount of the grant awarded. Under EDA procedures, no provisions were made to fund cost overruns. Therefore, in instances where the overrun exceeded the amount of funds provided for contingencies--which was the case for all the overruns shown in the above schedule--the applicants would have to either arrange for financing the overruns themselves or scale down the design of the projects. EDA allowed applicants to use any funds resulting from cost underruns to expand their projects.

Financing overruns posed a problem for some of the recipients we interviewed. In two cases, the overruns were so large (see projects C and G above), that the projects had to be redesigned and substantially reduced in scope, and new bids solicited. This delayed construction starts by about a month and resulted in projects considerably scaled down from what was originally envisioned. Grant recipients with cost underruns told us they expected no problems using the

resulting funds. However, in the case of underruns, better estimates would have meant that EDA could have funded additional projects.

A number of the grant recipients told us that the major reasons for the poor estimates were that inadequate allowances were made for the additional costs involved on federally funded projects (e.g., higher wages due to Davis Bacon Act 1/ and data reporting requirements) and that, because of a lack of time, plans on which the estimates were based were not sufficiently complete.

Some difficulties experienced in initiating construction

Prior to selecting a project, EDA regional office engineers reviewed the application and supporting documents to determine whether construction of the project could begin within 90 days of grant approval as required by the LPW act. EDA engineers told us that some of the items they considered in reaching their decisions were the complexity of the project and the qualifications of the architect and engineering firm.

On May 17, 1977, EDA advised the Senate Committee on Environment and Public Works that fewer than 20 projects had not met their 90-day construction start deadline. All 28 projects of the 21 grant recipients we interviewed were reportedly under construction within 90 days.

During our discussions with the 21 grant recipients, however, it became apparent that some problems occurred in getting construction started. In such instances, the construction start requirement was met by initiating work on one phase of the project. In some instances, the initial phase constituted a substantial portion of the construction work, but for at least 5 of the 28 projects, or about 18 percent, the initial phase constituted a relatively minor portion of the project.

For example, for two projects, the construction start requirement was met by the demolition of an existing structure. In the case of one of these projects, the 90-day

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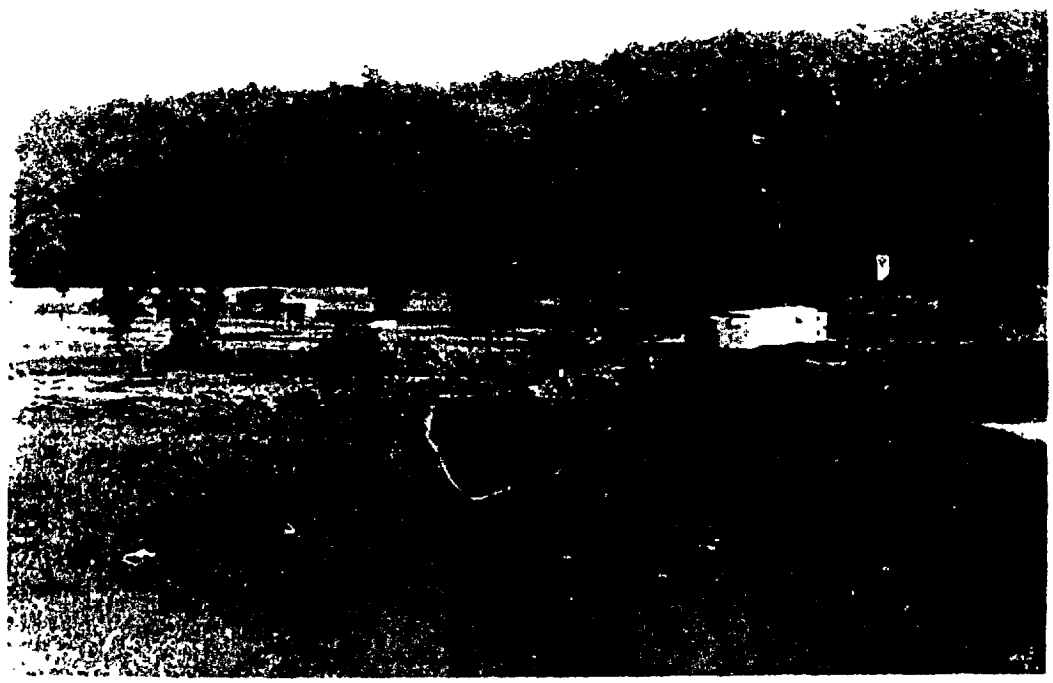
1/The Davis Bacon Act 40 (U.S.C. 276a et seq.) requires that all workers employed on federally assisted construction projects that cost more than $2,000 must be paid the same minimum wages and fringe benefits as the Secretary of Labor determines to be prevailing for corresponding workers on similar projects in the area.

period expired on April 13, 1977, 1/ but at the time of our visit on June 15, 1977, excavation work was just beginning, as shown in the following photograph. The construction start requirement on this $1.2 million project was met by the demolition of an abandoned house at a cost of $2,000.



In the second case where the construction start was met through demolition of an existing structure, because of problems experienced in obtaining building permits, actual construction was not expected to begin until about 8 months after the grant offer was accepted on January 11, 1977. Cost

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1/ Although EDA guidelines provide that the 90-day period is to begin when the applicant receives the grant offer, an EDA regional official told us that this date was frequently unknown and, therefore, the regional office used the date the applicant officially accepted the grant offer. This was the date we used in our review.

of demolition for this $667,487 project was $15,604. The photograph below shows the status of the project at the time of our visit on June 21, 1977.

For another of the five cases, the construction start deadline was met through the initiation of some excavation work and the installation of footings performed under a negotiated contract. The low bid to construct the remainder of this project was substantially above the estimate and, therefore, the project had to be redesigned and new bids solicited. At the time of our visit on June 1, 1977, a representative of the grant recipient told us that bids had been received on the redesigned project and a contract would be awarded in the near future.

For another of the five cases, the construction start deadline was met by performing some survey site work and in the last case by providing the contractor with a notice to proceed with construction. In these cases, actual construction began at the site after about 4 months of the grant acceptance.

Findings of the Commission on Federal Paperwork

The Commission on Federal Paperwork made a study of public work programs to assess the burdens placed on project applicants and agencies and to identify and recommend potential solutions. The Commission's study focused on the local public works program.

In summarizing its findings, the Commission said that the program generally delivered the grant funds efficiently by relying on the applicant and that the efficiency of the program, its basically trustful attitude, and streamlined review process should be considered by the Congress and Federal agencies for other programs.

On the other hand, the Commission said that the expedited application process, while reducing red tape and paperwork, may have made EDA's task more difficult and may have resulted in some inequitable administrative decisions. Further, the Commission said that the results of a National League of Cities' survey it sponsored indicated that there was some question as to whether the applicants understood the implications of the assurances they gave that the various laws and regulations would be complied with. It said that many may not have known what the assurances would entail.

The Commission recommended that EDA assess the techniques used in the program and, when appropriate, they be incorporated in the Department's other construction grant programs. It also recommended that the results of the evaluation be circulated to other Federal agencies for possible incorporation in their public works programs.

PROBLEMS WITH POLICIES AND PROCEDURES FOLLOWED TO AVOID UNDUE CONCENTRATION OF PROJECTS

EDA devised a system, including procedures and computer programs, to avoid the undue concentration of grant funds in certain cities and counties. According to EDA officials, however, only when the final computer run was provided did it become evident that the system would not discriminate sufficently among project areas to achieve its itended purpose. Therefore, they said that a new system, the benchmark procedures described on pages 7 and 8, had to be developed within a matter of days.

EDA officials told us that, once the use of the benchmark procedures was agreed to on December 16, 1976, they did not have the time to write them up as they only had about 3 days left to select the projects. Also, they said that, during the period projects were being selected, decisions were made affecting the procedures, but because of the lack of time, such decisions were not always communicated to all personnel involved in the selection process and were not applied to projects which were previously selected.

EDA advised the House and Senate Subcommittees 1/ of its benchmark procedures in hearings held in January and February 1977 and prepared detailed explanations of its benchmark procedures in affidavits prepared for use in various civil suits. We made a detailed comparison of procedures followed in the States of Massachusetts, New Jersey, and Pennsylvania with EDA's policies and procedures as stated in the congressional hearings and the affidavits. EDA's selections were frequently inconsistent with those stated policies and procedures. 2/

For example, personnel did not consistently follow EDA's procedures of

--selecting projects from an area until the area's benchmark was exceeded,

--rejecting projects once an area's benchmark was exceeded,

--selecting from among tied projects the one which exceeded an area's benchmark by the least amount, and

--establishing county benchmarks for all States.

EDA personnel did not maintain complete records showing (1) the method and sources of data used in calculating the benchmarks, (2) the actual benchmarks calculated, and (3) the basis for decisions made. Because of the absence of such records, in many instances we were unable to verify the accuracy of the benchmarks established and to determine whether projects were selected or rejected in accordance with EDA's procedures.

Procedure of exceeding benchmarks not consistently followed

EDA's procedures provided that projects were to be selected according to rank within a county (or a city) until

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1/Subcommittee on Economic Development of the House Committee on Public Works and Transportation and the Subcommittee on Economic Development of the Senate Committee on Environment and Public Works.

2/The benchmark procedures are presently being litigated in several suits. Our discussion of these procedures is not intended in any way to be a comment on or a judgment of the merits of the suits in which the affidavits were filed.

the selection of one more project would cause the cumulative total of grants for projects within the county to exceed its benchmark. The project that would cause the benchmark to be exceeded would be selected and, normally, no additional projects were to be selected.

For the three States we reviewed, EDA did not comply with this procedure in four instances affecting five cities. The details regarding these four instances are described below.

Weymouth, Massachusetts, had a project selected for $365,508. The score for this project was tied with two others, one for $2,061,200 and another for $4,830,000. Because EDA did not generally keep a record of the benchmarks it computed, we computed a benchmark for Weymouth of $374,858. In the case of tied projects, EDA's procedures provided that normally the project exceeding the benchmark by the least amount would be selected--in this case it would be the project for $2,061,200.

An EDA official told us that the $365,508 project was selected because it was close to the benchmark and that the higher cost project would have an inflationary effect on the small community.

Somerset County, New Jersey, had two projects selected totaling $1,112,250. We calculated a benchmark for the county of $1,651,427 and an unused portion of the benchmark of $539,177. There were two additional projects in the county, one in Belle Mead for $479,719 and one in Watchung for $186,596, that were not selected by EDA although the county benchmark would not have been exceeded until both projects were selected.

An EDA official could offer no explanation as to why the projects were not selected. He said that it was not possible to reconstruct the circumstances relating to the decision as no records were maintained and no one could recall the details relating to the decision. As a result of our inquiries about these projects, EDA included them on its error listing for possible funding under round two.

Washington, New Jersey, had a project for $118,916 which was not selected even though no other project in the city or the county in which the city is located (Warren County) was selected. An EDA official could offer no explanation as to why the project was not selected. As a result of our inquiries about this project, EDA included it on its error listing for possible funding under round two.

Beaver County, Pennsylvania, had two projects selected totaling $917,535. We calculated a benchmark for the county of $1,093,786 and an unused portion of the benchmark of $176,251. On the basis of EDA's procedures, a project in Rochester for $906,717 should have been selected but was not. EDA officials could not explain the reason why the Rochester project was not selected. This project was not, however, included on EDA's error listing.

Procedure of rejecting projects once benchmarks exceeded not always followed

EDA's procedures provided that, once a county's (or city's) benchmark was exceeded, no additional projects should normally be selected from that county.

Secaucus in Hudson County, New Jersey, had a project for $2,446,895 selected even though Hudson County's benchmark had already been exceeded by $111,212. EDA records show that the project was selected because Hudson County had the second highest unemployment rate in the State. In addition, an EDA official told us that he believed that he had the discretion to recommend projects for selection even though benchmarks had previously been exceeded. We found no other instance in the three States where discretion was similarly exercised, including the New Jersey county with the highest unemployment rate.

Procedure for selecting projects exceeding benchmark by least amount not consistently followed

In selecting projects which would exceed a county's (or city's) benchmark, EDA's procedures provided that in the event a project had to be selected from among several with tie scores (1) the project or projects that would result in exceeding the benchmark by the least amount would normally be selected provided the tied projects were from the same applicant and (2) the project judged to provide the greatest long-term benefit would be selected if the tied projects were submitted by different applicants.

An exception to the above rule, described in an EDA internal procedural paper, was that when there was a tie between a large number of projects from the same project area and applicant, the priorities of the applicant were followed in selecting the project(s) to be funded. If the applicant's priorities were not known, EDA considered the relative long-term benefits of the projects in making its selections.

EDA did not follow its procedure of selecting the project that would exceed an area's benchmark by the least amount in five instances in the three States reviewed and, in another instance, two projects were selected when one would have exceeded the benchmark.

The following schedule shows the costs of the projects selected and the costs of the projects that would have been selected had EDA's procedures been followed.

City	Cost of projects selected	Cost of projects exceeding benchmark by least amount	Difference
Union, N.J.	$ 1,565,398	$1,087,027	$ 478,371
Monmouth Beach, N.J.	1,041,222	139,789	901,433
Trenton, N.J.	2,676,445	1,336,176	1,340,269
Cambridge, Mass.	1,729,962	1,499,400	230,562
Upland, Pa.	3,751,860	157,320	3,594,540
Total	$10,764,887	$4,219,712	$6,545,175

New Brunswick, N.J., had two tied projects, one with a cost below the city's benchmark and the other above. Rather than selecting the higher cost project only, EDA selected both projects. The costs of the two projects were $1,000,000 and $40,000.

An EDA official told us that EDA selected the larger projects because they were thought to provide greater long-term benefits. He gave no reason for selecting the two projects in New Brunswick but said that EDA had the discretion to make such selections.

The selection of the projects based on long-term benefits was not in conformity with EDA's procedures since EDA records list the projects as being from the same applicant and the procedures provided for selecting projects exceeding the benchmark by the least amount in such instances. EDA headquarters officials agreed that the exception to the rule concerning large numbers of tied projects would not be applicable to the projects discussed above as the largest number of tied projects was four. Had EDA's procedures been followed, about $6.6 million ($6,545,000 plus $40,000) would have been available to fund projects in other communities.

County benchmarks not established in Massachusetts

EDA procedures provided for computing county and city benchmarks using unemployment data. In those instances where unemployment data was not available, population data was to be used.

In the State of Massachusetts, no county benchmarks were computed because, according to EDA officials, (1) no county unemployment data was available from the Department of Labor, (2) the counties were very large and, therefore, county benchmarks would not be necessary to preclude undue concentration of funds, and (3) the counties were not active political subdivisions; i.e., they provided no services to the population. An EDA official said that there were several other States for which county benchmarks were not computed because of similar reasons.

Had county benchmarks been computed on the basis of population data in Massachusetts, grant funds of about $3.3 million awarded in Suffolk County and about $2.7 million in Essex County would probably have gone to fund projects in other counties.

An EDA official told us that more attention should probably have been given to determine whether county benchmarks based upon population data should have been established but that the very limited time available to analyze such matters prevented this.

CONCLUSIONS

The LPW act imposed strict time frames on EDA in developing and implementing the program in order to generate employment opportunities quickly. In light of the requirements and objectives of the LPW act, the selection process developed by EDA was a reasonable one. This is not to say that the process was without certain failings or that some entirely different process may have been better.

Notwithstanding the reasonableness of the process, problems were experienced in implementing it and many selection errors were made. Data received from applicants had to be accepted with little more than a cursory review, numerous errors were made in the data used in ranking and selecting projects, and inconsistent policies and procedures were followed in selecting projects.

The problems experienced could have been minimized if EDA had more time to develop, test, and implement its regulations and procedures.

MATTER FOR CONSIDERATION BY THE COMMITTEES

Should there be a need for a similar program in the future, we recommend that the Committees, in developing the authorizing legislation, allow the administering agency more time to develop, test, and implement its regulations and procedures.

CHAPTER 4

RELIABILITY OF LABOR STATISTICS USED TO ALLOCATE RESOURCES AND SELECT PROJECTS

The reliability of unemployment estimates, particularly those below the national level, has frequently been called into question. Problems affecting the reliability of unemployment estimates have long been recognized and, although some corrective actions have been taken and others are planned, problems remain which do not lend themselves to easy solution.

For example, the unemployment estimates used for allocating funds to the States were developed through the so-called handbook method which used unemployment insurance data as a basis for estimating unemployment. The reliability of these estimates varies from State to State because of differences in administrative practices and laws regarding the classification of the unemployed for unemployment benefits. This data is relied on heavily in developing estimates used in the handbook method. Although the Bureau of Labor Statistics has taken some action to improve and standardize the data obtained from the States, basic differences in State unemployment insurance programs remain which affect the consistency of the data generated.

The handbook method was also used for developing estimates for the project areas; however, because estimates for smaller areas are generally considered less reliable, the data used for selecting projects was, therefore, less reliable than that used for allocating resources to States. Further, the other method relied on extensively for estimating unemployment of project areas (census share method) merely apportioned current handbook estimates according to the relationship which existed between areas at the time of the 1970 decennial census.

The problems relating to the reliability of the unemployment estimates were further compounded by the manner in which they were used in implementing the program. In our interim report, we noted that:

--The unemployment estimates reported by applicants and used in selecting projects (1) were obtained from different sources, (2) covered different time periods, and (3) were not adjusted for seasonal fluctuations.

--Applicants gerrymandered project areas to obtain the unemployment data considered the most favorable for project selection.

--EDA converted estimates of the number of unemployed workers to logarithms in order to reduce the relative importance of areas with large numbers of unemployed. The legislative and administrative actions necessary to correct these problems were taken prior to implementing the second round of grant awards.

METHODS FOR MEASURING UNEMPLOYMENT

BLS is responsible for developing and publishing the annual and monthly estimates for unemployment in the Nation as a whole, the States, and geo-political subdivisions. The definition of unemployment used by BLS defines unemployed workers as all those who do not have a job, are currently available for work, and have looked for work in the 4 weeks prior to the time of the estimate.

BLS estimates of unemployment are used for a variety of purposes including (1) as a basis for distributing billions of dollars of Federal assistance under such programs as public works, employment and training assistance, public service employment, and area redevelopment, and (2) as a factor considered by the Congress and Federal policymakers in determining the Nation's fiscal and monetary policy.

Although BLS has been responsible for national labor force data since 1959, it was not responsible for the methods used in the preparation of the estimates of employment and unemployment for States and local areas until 1972. The Department of Commerce's Bureau of the Census is responsible for making the actual household surveys.

The three methods used to develop unemployment estimates are the Current Population Survey, the 70-step (or handbook) method, and the census share method. These methods are described below.

Current population survey

Current Population Survey estimates are derived from monthly surveys conducted by the Bureau of the Census of a scientifically selected sample of 55,000 households throughout the Nation. Residents of these households are interviewed to collect, among other data, data on employment and unemployment.

The survey provides statistically valid monthly and annual estimates of national unemployment. The survey also provides annual unemployment estimates which meet a minimum standard of reliability set by BLS, for the 50 States, 1/ the 30 largest metropolitan areas, and the central cities of 11 of these areas.

Handbook method estimates

Handbook method estimates described in the "Handbook on Estimating Unemployment" and the "Handbook on Development of Basic Labor Market Information for Small Areas" are prepared by State employment security agencies (SESAs) under a cooperative Federal-State program supervised by BLS. The estimates are built up through a 70-step procedure relying heavily on counts of workers who claim unemployment insurance benefits in each State, supplemented by a series of estimates to account for workers not covered by the unemployment insurance system. The estimates for noncovered workers are based on relationships previously found to exist between unemployment rates for covered and noncovered workers. The handbook method yields monthly unemployment estimates for States, counties, and major metropolitan areas.

Census share method estimates

Census share method estimates are derived for an area by apportioning current survey or handbook estimates of a larger area, such as a county or major metropolitan area, in the same ratio as that which existed between it and a smaller area at the time of the 1970 decennial census--April 1970. For example, to develop an unemployment rate for a town, the ratio of employment and unemployment that existed in 1970 between the town and county is applied to the current estimates of the county employment and unemployment levels.

RELIABILITY OF DATA DERIVED FROM THE VARIOUS ESTIMATING METHODS

Of the three methods used in the estimating procedures, only the Current Population Survey relies on a sample and, therefore, it is the only one that produces estimates for which the standard sampling error measures can be computed. According to BLS, the monthly and annual statistics produced by the survey for the Nation are highly reliable, whereas the annual average unemployment estimates produced for

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1/Prior to January 1977, the survey provided statistically valid annual estimates for only 27 of the States because of the smaller sample surveyed--47,000 households.

individual States meet only a minimum standard of reliability. The minimum standard now in use by BLS is that there are 2 chances out of 3 that the annual average for a State will be within 10 percent of the rate obtained if a complete census were taken.

The handbook method has been criticized by various sources, including a previous Secretary of Labor. For example, the relationships or factors applied to State counts of unemployment insurance claimants to arrive at estimates of the noncovered unemployed have been criticized because (1) the factors are national in scope and do not necessarily reflect local conditions, (2) some factors are based on relationships which existed several years ago and may not accurately represent current conditions, and (3) less than one-half of the unemployed have been covered by unemployment insurance in recent years. Similar criticisms were made in a GAO report to the Congress "More Reliable Data Needed as a Basis for Providing Federal Assistance to Economically Distressed Areas" (B-133182, May 10, 1971).

In addition, a 1975 BLS study found that significant inaccuracies existed in State counts of unemployment insurance claimants. These inaccuracies also affect the unemployment estimates for noncovered unemployed which are based on the counts of the covered unemployed.

Another problem which must be dealt with to insure the accuracy of the handbook method is the differences in State laws and administrative practices dealing with unemployment insurance benefits which could result in inconsistencies in distinguishing between the employed and unemployed. BLS is attempting to improve the quality and consistency of the data and has contracted with 44 States to standardize coding and other procedures in an effort to eliminate some of these differences for the estimates. Also to increase the comparability of State unemployment data, BLS instituted a procedure for adjusting the monthly handbook estimates for States to the annual data produced by the survey. (This procedure is referred to as benchmarking.)

The Commissioner of Labor Statistics, in testifying on the problems of providing unemployment data to fulfill the antirecession provisions of title II of the Public Works Employment Act of 1976,1/ said that there are serious problems in providing accurate, comparable, and timely unemployment

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1/March 2, 1977, testimony before the Intergovernmental Relations and Human Resources Subcommittee, House Committee on Government Operations.

data for States and local areas and that the quality of this data is cause for concern. Also he stressed that small area data are, and will always be, less reliable than data for large population groups.

The schedule on the following page shows the wide disparity in the survey data and the unbenchmarked handbook data for 1976. For 32 States and the District of Columbia, the disparity between the unemployment rates produced by the two methods varied by more than one-half percentage points.

The census share method is the least reliable of the three estimating methods used because it merely apportions data derived from either the survey or handbook methods in the ratio that existed between two areas in April 1970. The reliability of the data used is dependent upon (1) the reliability of the estimate for the larger area that is to be apportioned and (2) upon the time that has elapsed between the date of the census and the date the method is used (i.e., the more time that has elapsed the more likely the relationships can have changed). In our opinion, little reliance can be placed on the assumption that ratios that existed between two communities in 1970 would still be maintained in 1976.

Criticisms of the definition of unemployment

The definition of unemployment used by BLS (i.e., those persons who do not have a job, are currently available for work, and have looked for work in the 4 weeks prior to the time of the estimate) has received criticism from academicians and others, including a previous Secretary of Labor. The Commissioner of Labor Statistics has suggested that the definition needs review. Remarks have focused on the contention that the definition is no longer appropriate in light of the purposes for which the estimates are being used--particularly as the basis for the allocation of Federal funds for employment and training programs, public service jobs, and public works projects.

The major issue raised and recommendations made by critics of the definition stem from the contention that the relationship between BLS unemployment figures and hardship has been increasingly obscured and that unemployment statistics are no longer the valid measures of economic and social health they once were. For example:

--Certain groups suffering economic hardship are not considered as unemployed in the BLS definition, such as workers with earnings below the poverty level, discouraged job seekers, and part-time workers wanting full-time employment.

Estimates of 1976 Annual
Average of Unemployment Levels and Rates

	Unemployment levels			Unemployment rates		
	Handbook method	Survey method	Amount survey over or under (-) handbook method	Handbook method	Survey method	Amount survey over or under (-) handbook method
	(thousands)			(percent)		
Alabama	99	100	1	6.8	6.8	0
Alaska	19	13	-6	9.8	8.0	-1.8
Arizona	66	93	27	7.6	9.8	2.2
Arkansas	52	62	10	6.1	7.1	1.0
California	911	889	-22	9.6	9.2	-0.4
Colorado	69	71	2	6.0	.9	-0.1
Connecticut	137	139	2	9.4	9.5	0.1
Delaware	19	23	4	7.7	8.9	1.2
District of Columbia	26	30	4	7.4	9.1	1.7
Florida	343	314	-29	10.1	9.0	-1.1
Georgia	138	179	41	6.6	8.1	1.5
Hawaii	31	39	8	8.6	9.8	1.2
Idaho	23	21	-2	6.3	5.7	-0.6
Illinois	368	332	-36	7.3	6.5	-0.8
Indiana	132	148	16	5.6	6.1	0.5
Iowa	65	53	-12	5.0	4.0	-1.0
Kansas	43	46	3	4.1	4.2	0.1
Kentucky	88	81	-7	6.2	5.6	-0.6
Louisiana	108	101	-7	7.4	6.8	-0.6
Maine	37	42	5	8.3	8.9	0.6
Maryland	116	128	12	6.3	6.8	0.5
Massachusetts	214	263	49	8.0	9.5	1.5
Michigan	390	374	-16	10.1	9.4	-0.7
Minnesota	99	110	11	5.4	5.9	0.5
Mississippi	52	62	10	5.8	6.6	0.8
Missouri	111	133	22	5.4	6.2	0.8
Montana	23	20	-3	7.1	6.1	-1.0
Nebraska	35	24	-11	5.0	3.3	-1.7
Nevada	25	27	2	8.4	9.0	0.6
New Hampshire	16	25	9	4.3	6.4	2.1
New Jersey	295	345	50	9.2	10.4	1.2
New Mexico	30	43	13	6.7	9.1	2.4
New York	693	794	101	9.2	10.3	1.1
North Carolina	155	159	4	6.3	6.2	-0.1
North Dakota	15	10	-5	5.2	3.6	-1.6
Ohio	340	369	29	7.2	7.8	0.6
Oklahoma	87	65	-22	7.4	5.6	-1.8
Oregon	98	102	4	9.3	9.5	0.2
Pennsylvania	409	406	-3	8.1	7.9	-0.2
Rhode Island	42	35	-7	10.2	8.1	-2.1
South Carolina	72	87	15	6.0	6.9	0.9
South Dakota	13	11	-2	4.4	3.4	-1.0
Tennessee	124	110	-14	6.8	6.0	-0.8
Texas	295	318	23	5.5	5.7	0.2
Utah	31	29	-2	5.9	5.7	-0.2
Vermont	18	19	1	9.0	8.7	-0.3
Virginia	123	136	13	5.5	5.9	0.4
Washington	137	137	0	8.9	8.7	-0.2
West Virginia	39	51	12	6.0	7.5	1.5
Wisconsin	125	122	-3	5.9	5.6	-0.3
Wyoming	7	7	0	3.8	4.1	0.3

Source: "Estimating State and Local Unemployment: Problems and Perspectives" U.S. Department of Labor, Bureau of Labor Statistics (1977, Report 503)

--Certain groups now included in the estimates, such as students and those in households with incomes above certain levels, may not be suffering economic hardship.

ACTIONS TAKEN AND PLANNED TO INCREASE THE RELIABILITY OF UNEMPLOYMENT DATA

BLS actions

BLS is aware of the inadequacies and concern expressed regarding the unemployment estimates and has initiated or proposed actions designed to improve the estimates. These actions include:

--The Current Population Survey was expanded from 47,000 households to about 55,000 households.

--Further expansion. BLS hopes to have additional households included in the survey to yield monthly survey estimates which meet a minimum standard of reliability for all States.

--Improvement of State unemployment insurance data. BLS plans to initiate a program to improve the quality of the data the States develop on unemployment insurance claimants. Funds will be made available to States for improving data collection systems and procedures.

The Commissioner of Labor Statistics said that more reliable data, collected more frequently, is needed to meet the legislative requirements for local area unemployment rates. One possibility being considered to provide more reliable monthly data at the State level is to expand the survey from 55,000 to 160,000 households. BLS officials said the additional annual cost of such a survey is estimated to be in the neighborhood of $25 to $30 million.

National Commission on Employment and Unemployment Statistics

The Emergency Jobs Programs Extension Act of 1976 (Public Law 94-444, Oct. 1, 1976) establishes a National Commission on Employment and Unemployment Statistics, consisting of nine members appointed by the President. The Commission is to examine the procedures, concepts, and methods involved in employment and unemployment statistics and is to report on its findings and recommendations to the President and the Congress within 18 months after the first five members of the

Commission are appointed. 1/ A major task of the Commission will be to review the definitions of employment and unemployment to determine whether they are adequate.

Within 6 months after the report's submission, the Secretary of Labor is to make an interim report to the Congress on:

> "(1) the desirability, feasibility and cost of implementing each of the Commission's recommendations, and the actions taken or planned with respect to their implementation; and (2) recommendations with respect to any legislation proposed by the Commission, the need for any alternative or additional legislation to implement the Commission's recommendations, and any other proposals to strengthen and improve the measurement of employment and unemployment."

Within 2 years after submission of the Commission's report, the Secretary is to submit a final report to the Congress detailing the actions taken on the Commission's recommendations, together with any further recommendations deemed appropriate.

HOW UNEMPLOYMENT DATA WAS USED IN THE PROGRAM

Allocations made to States

Subject to the statutory minimums and maximums, EDA allocated funds to the States as follows:

--Sixty-five percent of the funds available for distribution was allocated on the basis of each State's share of the number of unemployed in the Nation.

--Thirty-five percent was allocated among those States with unemployment rates above the national average on the basis of the relative severity of unemployment in each State.

The BLS unemployment data used in the October 1976 allocations was developed by the handbook method for the 3-month period of April, May, and June 1976. Because survey data was not available for all States at the time, the handbook estimates used for allocating the first round of funds were only benchmarked to the survey on a one-for-one basis for 27 States and the District of Columbia.

1/ The Chairman of the Commission was appointed July 28, 1977.

Subsequently, expanded survey data became available, enabling BLS to benchmark the handbook estimates for all the States. EDA used these more reliable estimates in allocating the second round of funds to the States on May 16, 1977. 1/ Also, EDA used average unemployment data for the 12-month period ending February 28, 1977, except for three States where calendar year 1976 data was used because of the unavailability of the more current data.

Project selection

In scoring the projects, the number of unemployed and the rate of unemployment accounted for 30 and 25 percent of a project's basic score, respectively. The LPW act required that the unemployment data reported be for the 3 most recent consecutive months and permitted applicants to include the unemployment data for their own jurisdiction as well as for the adjoining areas the labor force would be drawn from.

The latest unemployment data from the two primary sources used for the data--BLS and the SESAs--were not seasonally adjusted and were usually based on different reporting periods. The BLS data used was usually for April, May, and June 1976, while the SESA data used was usually for July, August, and September 1976. Because of this, seasonal employment patterns affected the unemployment data of some applicants.

In accordance with Office of Management and Budget Circular A-46, EDA required applicants to use BLS unemployment data when it was available. The BLS data used was generally that compiled to satisfy the requirements of the Comprehensive Employment and Training Act of 1973 (CETA). The survey, handbook, and census share estimating methods are used to develop the CETA data.

BLS normally obtains CETA unemployment data from the SESAs and submits it to a quality control program to insure it is calculated properly. The time required to do this accounted for the fact that the BLS data was generally less current than that provided by the SESAs.

1/Section 105 (a)(3)(B) of the 1977 act provides, however, that no State whose unemployment data was converted for the first time in 1976 to the benchmark data for the Current Population Survey shall receive a lesser percentage of funds than it received in the first round allocation. An EDA official told us that the only State affected by this amendment was Rhode Island.

Applicants obtained unemployment data directly from SESAs when CETA data was not available or when, because of gerrymandering, their project areas did not correspond to the CETA areas. EDA estimated that SESA data was used on about one-half the applications received.

Legislative and administrative changes affecting use of labor data

The Public Works Employment Act of 1977 included several amendments which affect the use of unemployment data in the second round of funding including:

--Section 105(3) of the 1977 act prescribed a formula for allocating funds to the States based on unemployment data for the preceding 12-month period.

--Section 107(a) of the 1977 act changed the timespan for the unemployment data to be used in selecting projects from the 3 most recent consecutive months to the 12 most recent consecutive months.

--Section 107(e) of the 1977 act repealed the provision permitting applicants to use unemployment data from adjoining areas.

In reporting out the 1977 act, the conferees 1/ stated that, in implementing the second phase of the program, unemployment data is to be determined for project areas; i.e., a city, a county, the balance of a county in which such city is located, or a pocket of poverty where the project is within an urbanized area. They also stated:

"Although the conferees recognize the need to have comparable unemployment data from one source to assure uniform and accurate measurements of a community's distress, it is also important that a community not be denied assistance under the act because national unemployment figures are unavailable for a local jurisdiction. In such cases as unemployment data is not available from the Bureau of Labor Statistics, the Secretary shall accept State or local data.

* * * * *

1/House Report 95-230 (conference report) April 28, 1977.

"* * * It is the conferees' intent under section 108(c) that if the Economic Development Administration cannot obtain unemployment data from the BLS for a jurisdiction smaller than 50,000 population, or for other jurisdictions where the data is not available for the most recent 12 consecutive months, that the EDA shall request such unemployment information from the State employment security agencies. It is not the conferee's intent to delay the updating of unemployment statistics for project application on file at EDA in allowing the agency to obtain data from the States but the conferees want to insure that EDA has the maximum flexibility in obtaining unemployment data in a timely manner for all eligible applicants under the Act."

EDA's revised project selection process, published in the Federal Register on May 27, 1977, (42 F.R. 27432) relies heavily on substate allocations, State and local government priorities, and ranking of project areas. In making the substate allocations and in ranking project areas, EDA used BLS unemployment estimates covering the 12-month period ending February 28, 1977, for all counties and for all cities with populations of 50,000 or more. For cities with less than 50,000 people, EDA used unemployment estimates it developed through the census share method. According to EDA officials, the unemployment data used was not subjected to logarithmic manipulation.

Although BLS also provided EDA with unemployment data for communities with populations of 25,000 to 50,000 by May 13, 1977, an EDA official said that the data was received too late to be incorporated into the project selection process.

CONCLUSIONS

Actions have been taken to deal with many of the problems regarding the use of unemployment data in the first round of funding the local public works program. Unemployment data for the second round of funding was obtained primarily from one source--BLS--and covered a single 12-month period, gerrymandering of project areas was eliminated, and the unemployment data was not subjected to logarithmic manipulation. Action was also taken that increased the reliability of the unemployment data used in allocating funds to the States.

Problems remain, however, in attempting to obtain reliable and consistent unemployment data below the State

level. These problems have been long recognized but do not lend themselves to easy solution. BLS has taken and proposed some corrective actions and the National Commission on Employment and Unemployment Statistics has been established to study the overall problem.

CHAPTER 5

AGENCY COMMENTS AND OUR EVALUATION

We asked the Departments of Commerce and Labor to comment on our report and their comments, some of which were made on an informal basis, were considered in preparing the final report.

In commenting on the report for the Department of Commerce (see app. I), the Economic Development Administration said that GAO had prepared a comprehensive report on the complex round one program and treated the agency equitably. EDA said, however, that because the Atlantic Regional Office bore a substantial share of the program burden it may not reflect the administration of the program generally. EDA said also that it suspects that it may not be possible to generalize the finding of the Atlantic Region experience to the entire country.

While the Atlantic Regional Office bore a substantial share of the program burden (it processed about 30 percent of all applications), it also had a substantial share of EDA's total regional staff (i.e., about 22 percent), and therefore, we do not believe it should necessarily be considered atypical. Further, the major issues addressed in the report are national in scope and the administration problems discussed serve to demonstrate the effects of these issues. Nevertheless, our field review was limited to the one region and the degree and severity of the problems discussed could vary among the regions.

Although the Department of Labor had no major comments (see app. II), it did suggest some revisions which were considered in finalizing the report.

APPENDIX I

UNITED STATES DEPARTMENT OF COMMERCE
The Assistant Secretary for Administration
Washington, D.C. 20230

12 Dec., 1977

Mr. Henry Eschwege
Director, Community and Economic
Development Division
U. S. General Accounting Office
Washington, D. C. 20548

Dear Mr. Eschwege:

This is in reply to your letter of September 23, 1977, requesting comments on the draft report entitled "Selection Process Used For First Round Of Local Public Works Program - Adequate But Some Problems Experienced."

We have reviewed the enclosed comments of the Assistant Secretary for Economic Development and believe they are responsive to the matters discussed in the report.

Sincerely,

Elsa A. Porter
Assistant Secretary
for Administration

Enclosure

APPENDIX I

UNITED STATES DEPARTMENT OF COMMERCE
Economic Development Administration
Washington, D.C. 20230

DEC 1 1977

Mr. Henry Eschwege
Director
Community and Economic
Development Division
United States General Accounting Office
Washington, DC 20548

Dear Mr. Eschwege:

This responds to your letter of September 23 requesting that EDA review and comment on a draft report on the process used in selecting projects under the first round of the Local Public Works (LPW) Program.

We believe the GAO has prepared a comprehensive report on the complex Round I program and has treated EDA equitably. However, there is one area in the report that possibly could cause misunderstanding and is discussed below.

"Objective and Scope of Review"

This area of the report may have limited the possibilities of placing the findings in proper perspective. Although the Philadelphia Region bore a substantial share of the LPW burden, for that reason it may not reflect the administration of the program generally. We suspect that it may not be possible to generalize the finding of the Philadelphia experience to the entire country.

The Agency will continue to make every attempt to be responsive to questions underlying the conclusions of the GAO report.

If we can be of any further assistance, please let us know.

Sincerely,

Robert T. Hall
Assistant Secretary
for Economic Development

MATTER FOR CONSIDERATION BY THE COMMITTEES

Tne Federal Government has relied on public works programs in the past to help combat unemployment and will probably use them in the future. With this as a consideration, the Committees may wish to request the Secretaries of Commerce and Labor to advise them of the problems involved in producing unemployment data for the construction and construction-related industries for State and local areas and what the possible solutions are to the problems identified. With this information, the Committees could then decide whether legislation should be introduced in the Congress which would require the development of construction unemployment data for future use.

CHAPTER 3

PROJECT SELECTION PROCESS--GENERALLY ADEQUATE BUT SOME PROBLEMS EXPERIENCED

The Local Public Works Capital Development and Investment Act required the Economic Development Administration to approve or disapprove grant applications within 60 days of their receipt. The selection process used by EDA enabled it to comply with this requirement despite the fact that it received some 25,000 applications--a volume far greater than anticipated 1/--and at the same time give consideration to the various objectives the Congress established for the program.

In this context the selection process used by EDA--the use of a formula to score and rank projects, the reliance upon certifications and assurances provided by applicants concerning compliance with various laws and regulations, and the procedures followed to avoid undue concentration of grant funds--was a reasonable one in view of the tight program-implementation time frame required by the LPW act. However, problems were experienced as described below.

The computer methodology followed by EDA in scoring and ranking projects was generally adequate. However, on the basis of our review of the computer input data for a scientifically selected sample of Pennsylvania projects, we believe that many errors were made in putting data into the computer. Based on the sample, we estimate that EDA personnel made one or more errors, some significant, some not, in the input data for 16 to 30 percent of the Pennsylvania projects scored and ranked. Although we could not determine the effect these errors had on the selections made in Pennsylvania, we believe that the errors could have resulted in some incorrect selections and rejections. Nationwide, EDA has identified over 80 projects totaling about $96 million which were erroneously rejected--we noted that about one-half of the rejections were because of input data errors.

In order to meet the LPW act requirement that a final determination be made regarding each application within 60 days after it is received, EDA required applicants to provide assurances that various laws and program requirements would

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1/ On August 25, 1976, the former Assistant Secretary for Economic Development advised the Subcommittee on State, Justice, Commerce, the Judiciary and Related Agencies, Senate Committee on Appropriations, that as many as 6,000 applications might be received.

be complied with and that the information supplied was accurate to help minimize review time. The limited time and staff 1/ EDA had to review the large number of applications prior to selection meant that little more than cursory reviews could be made of the data received.

EDA's Atlantic Regional Office allowed its engineers only 30 minutes to review, among other things, the reasonableness of the applicants' cost data and ability to begin construction of their projects within 90 days. Bids for 11 of the 22 projects reviewed for which data was available varied from cost estimates by over 20 percent and at least 5 of the 28 projects reviewed (all of which reportedly started within the required 90 days), or 18 percent, were able to meet the 90-day construction deadline through the initiation of some minor phase of the construction work.

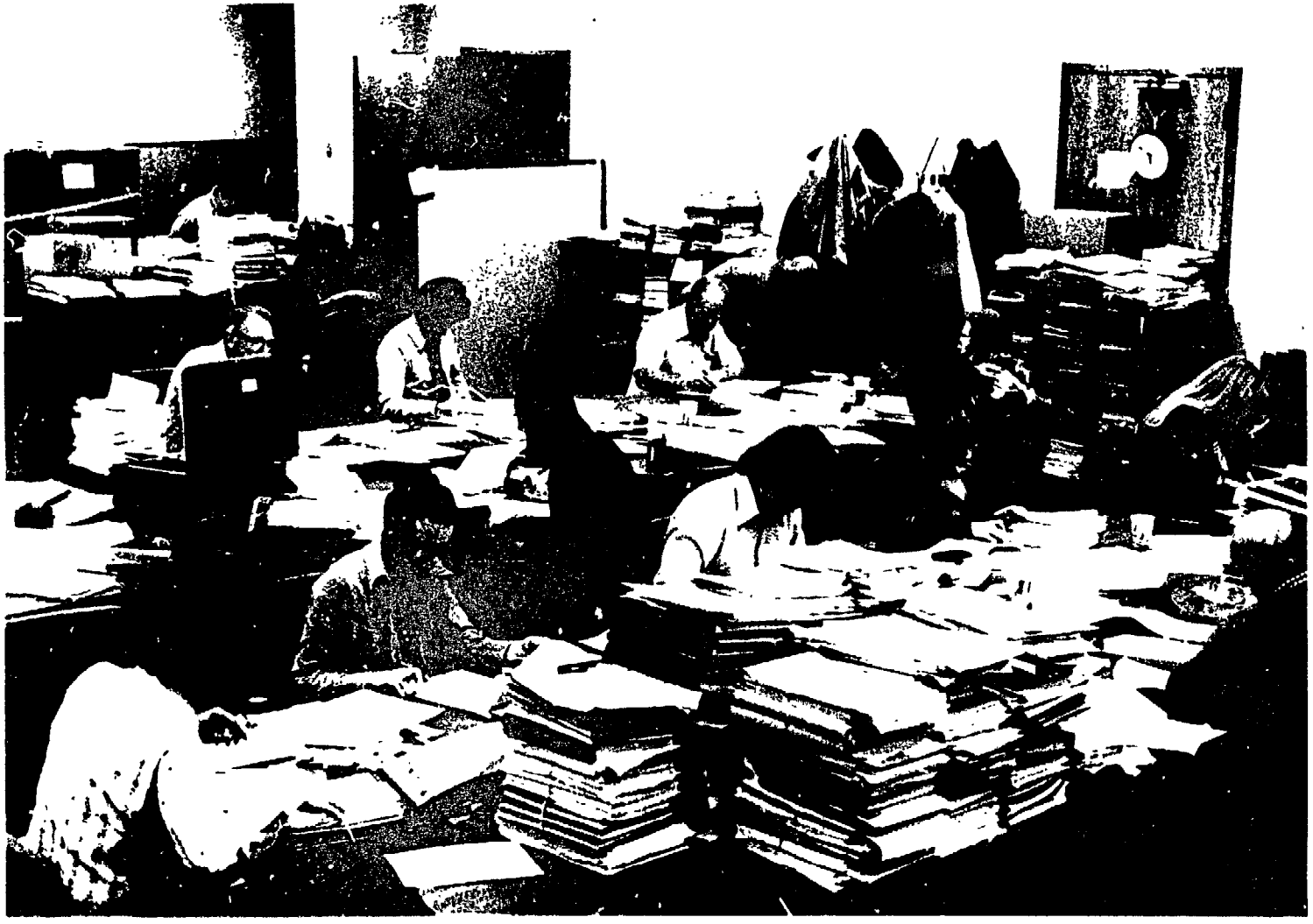
Problems were also experienced in the selection procedures EDA followed in attempting to avoid undue concentrations of grant funds--the procedures were unwritten, improvised, and inconsistently followed. Selection errors were also made in implementing these procedures.

EDA completely revised its selection process for the second round of funding appropriated for the program. In essence, in round two EDA allocated funds to substate areas and let the applicants select which of their projects should be funded. According to the Secretary of Commerce, this change was made to facilitate local decisionmaking and to produce a more equitable and predictable distribution of funds. In round one EDA selected the projects themselves.

The following photographs illustrate the activity generated by the program in EDA's Western Regional Office.

1/ Prior to the initiation of the program, EDA had a staff of 765 personnel. This staff was supplemented by about 240 additional employees hired to help implement round one of the program.

"GOLD RUSH AT REGION'S GATE" WAS EDA CAPTION FOR THIS PHOTOGRAPH SHOWING CITY AND COUNTY OFFICIALS WAITING TO ENTER WESTERN REGIONAL OFFICE WHEN DOORS OPENED AT 8 A.M.



EDA PHOTOGRAPH

APPLICATIONS BEING LOGGED IN AT EDA'S WESTERN REGIONAL OFFICE.

EDA PHOTOGRAPH

REGIONAL MANAGER OF EDA'S WESTERN REGIONAL OFFICE HELPING LOG IN APPLICATIONS.

COMPUTER METHODOLOGY ADEQUATE BUT NUMEROUS ERRORS MADE IN THE INPUT DATA USED

The computer data processing methodology used by EDA was generally adequate. However, on the basis of our review of the computer input data for a sample of Pennsylvania projects, we estimate that one or more errors were made for 16 to 30

percent of the projects scored and ranked. 1/ Nationwide, EDA identified over 80 projects totaling about $96 million which were not selected in the first round of funding because of some form of error, about half of which involved computer input data. On the basis of our analysis of the errors and discussions with EDA officials, we believe that the large number of errors made are attributable mainly to the limited time and staff EDA had to process the large volume of applications received.

Analysis of computer processing methodology

In analyzing EDA's computer processing methodology, we (1) reviewed such documents as system flow charts, source data documents, procedural instructions for data preparation and entry, computer program flow and processing descriptions, data editing, and error procedures and (2) interviewed responsible EDA officials from the data processing area and the Office of Public Works--the main user of the system outputs. Of particular interest to us in our review was the methodology used to score and rank projects and the quality and reliability of the data items used in the scoring and selection process.

The scoring methodology was reviewed by examining in detail the computer program used to calculate the project scores which were the primary basis used in selecting projects. The program logic and mathematical technique were determined to be reasonable and accurate.

The quality and reliability of the data items used in the scoring and selection process were assessed by reviewing the input data for a sample of projects in Pennsylvania and by analyzing the reasons given for the errors made for the more than 80 projects identified as being erroneously rejected. Our findings relating thereto follow.

Computer input data error rate high

To verify the reliability of the input data used in the computer program for scoring projects, we scientifically selected a random sample of 150 of the 1,394 Pennsylvania

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1/ Pennsylvania was selected for review primarily because of its high planning allocation and large number of project grants applied for. We believe the error rate found in Pennsylvania would be representative of the other States and areas covered by the Atlantic Regional Office since all their applications were processed by the regional office in Philadelphia.

projects scored and ranked by EDA, 7 of which were selected for funding. For each application, we examined 15 data items used in scoring and selecting projects and traced these items to the source documents.

We found that one or more errors were made for 35 of the 150 projects sampled (23 percent). Using statistical sampling techniques, we estimate that, on the basis of the error rate found in our sample, there is a 95-percent chance that from 16 to 30 percent of the 1,394 projects scored and ranked by EDA, or from 223 to 418 projects, had location and/or scoring data errors.

The data items reviewed were those which, if incorrect, could result in project selection errors. Such items were reviewed as project location (one way this item could affect selection was in the development of benchmarks), per capita income, and number and rate of unemployed.

Some errors found were minor and had no effect on the selections made, while others were more significant and could have affected the selections. Whether an error would affect a project's selection, however, depends not only on the significance of the error but also on the project's ranking; i.e., a minor error for a high-ranking project not selected could have prevented its selection, whereas a similar error for a low-ranking project would have no affect on its selection.

It was not practicable to determine the effect the errors found would have had on the selections because this would have required redoing the entire selection process for the State of Pennsylvania. We believe, however, that the errors would have resulted in some incorrect selections and rejections.

For example, the 150 sampled projects included 7 that were selected, 2 of which contained data errors. In one case, the error was insignificant and had no affect on its selection. In the other case, however, several errors were found, one of which was that the project was incorrectly included in the 30-percent category instead of the 70-percent category. Had the project been correctly classified, it would have ranked low in the 70-percent category and probably would not have been selected.

EDA recognized that a number of projects were rejected erroneously and supported legislation to authorize a special set-aside of funds to be used for those projects in round two. Public Law 95-28 authorized $70 million for this purpose. As of June 13, 1977, EDA identified over 80 projects totaling

about $96 million which were erroneously rejected. 1/ Of these, 17 projects totaling about $30 million were in the Atlantic Region, 21 and 31 percent of the national totals respectively. Our analysis of reasons cited for the errors made showed that about one-half involved the use of incorrect location and scoring data information.

EDA officials told us that one of the major reasons for the errors was that the application form used did not request the applicant to identify the location of the project. As a result, EDA personnel generally used the applicant's address which frequently differed from that of the project.

On the basis of our analysis of the errors and discussions with EDA officials, it appears that other basic causes of the errors were the lack of sufficient experienced staff and the lack of sufficient time to develop and test the selection process and to handle the large volume of applications.

LIMITED REVIEW OF APPLICATIONS MADE PRIOR TO SELECTION

In order to comply with the legislative requirement that project applications be processed within 60 days of their receipt, EDA devised a system whereby applicants would supply EDA with certifications and assurances that various laws and program requirements would be complied with and information supplied was accurate. EDA generally accepted the data supplied by applicants with little or no verification and with only a limited review.

While the system helped EDA to comply with the 60-day processing requirement, we found problems, as discussed below, relating to the accuracy of the data supplied by the applicants concerning estimates of project costs and ability to begin construction within the required 90 days.

Further the Commission on Federal Paperwork, 2/ while generally applauding the system for its ability to reduce

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1/According to EDA officials, an unknown number of other projects erroneously rejected were subsequently selected when funds became available because certain projects selected on December 23 did not receive final approval. These erroneously rejected projects were not included on the June 13 listing since they had already been funded.

2/A report of the Commission on Federal Paperwork, Public Works, June 10, 1977.

paperwork and red tape, questioned whether all applicants were sufficiently aware of the requirements of the laws they certified they could comply with.

Construction bids varied substantially from applicants' estimates

EDA's Atlantic Regional Office processed about 6,400, or 30 percent, of the 22,000 applications EDA scored and ranked nationwide. Project applications were scored and ranked as they were received and EDA regional office teams, made up of specialists such as engineers and environmentalists, made reviews of the highest ranked projects. EDA estimated such reviews were made for 3,500 applications nationwide.

In order to cope with the volume of applications, engineers in EDA's Atlantic Regional Office told us that they were allowed 30 minutes to review the applications for a number of items including the reasonableness of estimated project costs and whether construction of a project could be started within 90 days of grant approval. EDA's headquarters instructions to its engineers regarding cost estimate reviews were that

> "There is neither time nor data available to discover any but flagrantly unreasonable costs, which indicate that the application was carelessly or falsely prepared."

Notwithstanding these instructions or the limited review time imposed, EDA's regional office public works officers were required to certify that the estimated project costs were reasonable before grants were approved.

EDA officials and a representative of a professional construction cost estimating firm told us that a competent estimator should be able to come within 10 percent of the actual construction costs of a project if the estimate is based upon plans in the schematic or preliminary stage. The EDA officials said that the estimates should improve as the plans approach completion.

Of the 22 projects we reviewed where bid data was available, 14 had construction bids which varied by more than 10 percent from the estimated costs, 11 of which varied by more than 20 percent, as shown below.

Project	Estimated construction costs (note a)	Acceptable low bid (note b)	Variance over under (-) (note c)	Percent over under (-)
A	$ 224,290	$ 332,000	$ 107,710	48
B	245,000	306,936	61,936	25
C	4,718,903	6,235,665	1,516,762	32
D	358,000	159,868	-198,132	-55
E	505,482	652,700	130,658	26
F	208,000	318,600	110,600	53
G	922,500	1,349,000	426,500	46
H	310,000	226,700	- 83,300	-27
I	636,675	797,675	161,000	25
J	492,757	597,537	104,780	21
K	514,036	651,631	137,595	27

a/Includes costs of demolition where applicable, but does not include costs for items such as architect and engineering fees and applicants' administrative expenses which were generally not let for bid.

b/In some instances, projects had to be scaled down and new bids solicited. In such instances, the low bid for the original project proposal is shown.

c/Generally, provision for funding contingencies of up to 10 percent of total project costs were allowed. Such funds could be used to help meet cost overruns.

Reliable cost estimates were important because, once the grant was approved, EDA generally did not change the amount of the grant awarded. Under EDA procedures, no provisions were made to fund cost overruns. Therefore, in instances where the overrun exceeded the amount of funds provided for contingencies--which was the case for all the overruns shown in the above schedule--the applicants would have to either arrange for financing the overruns themselves or scale down the design of the projects. EDA allowed applicants to use any funds resulting from cost underruns to expand their projects.

Financing overruns posed a problem for some of the recipients we interviewed. In two cases, the overruns were so large (see projects C and G above), that the projects had to be redesigned and substantially reduced in scope, and new bids solicited. This delayed construction starts by about a month and resulted in projects considerably scaled down from what was originally envisioned. Grant recipients with cost underruns told us they expected no problems using the

resulting funds. However, in the case of underruns, better estimates would have meant that EDA could have funded additional projects.

A number of the grant recipients told us that the major reasons for the poor estimates were that inadequate allowances were made for the additional costs involved on federally funded projects (e.g., higher wages due to Davis Bacon Act 1/ and data reporting requirements) and that, because of a lack of time, plans on which the estimates were based were not sufficiently complete.

Some difficulties experienced in initiating construction

Prior to selecting a project, EDA regional office engineers reviewed the application and supporting documents to determine whether construction of the project could begin within 90 days of grant approval as required by the LPW act. EDA engineers told us that some of the items they considered in reaching their decisions were the complexity of the project and the qualifications of the architect and engineering firm.

On May 17, 1977, EDA advised the Senate Committee on Environment and Public Works that fewer than 20 projects had not met their 90-day construction start deadline. All 28 projects of the 21 grant recipients we interviewed were reportedly under construction within 90 days.

During our discussions with the 21 grant recipients, however, it became apparent that some problems occurred in getting construction started. In such instances, the construction start requirement was met by initiating work on one phase of the project. In some instances, the initial phase constituted a substantial portion of the construction work, but for at least 5 of the 28 projects, or about 18 percent, the initial phase constituted a relatively minor portion of the project.

For example, for two projects, the construction start requirement was met by the demolition of an existing structure. In the case of one of these projects, the 90-day

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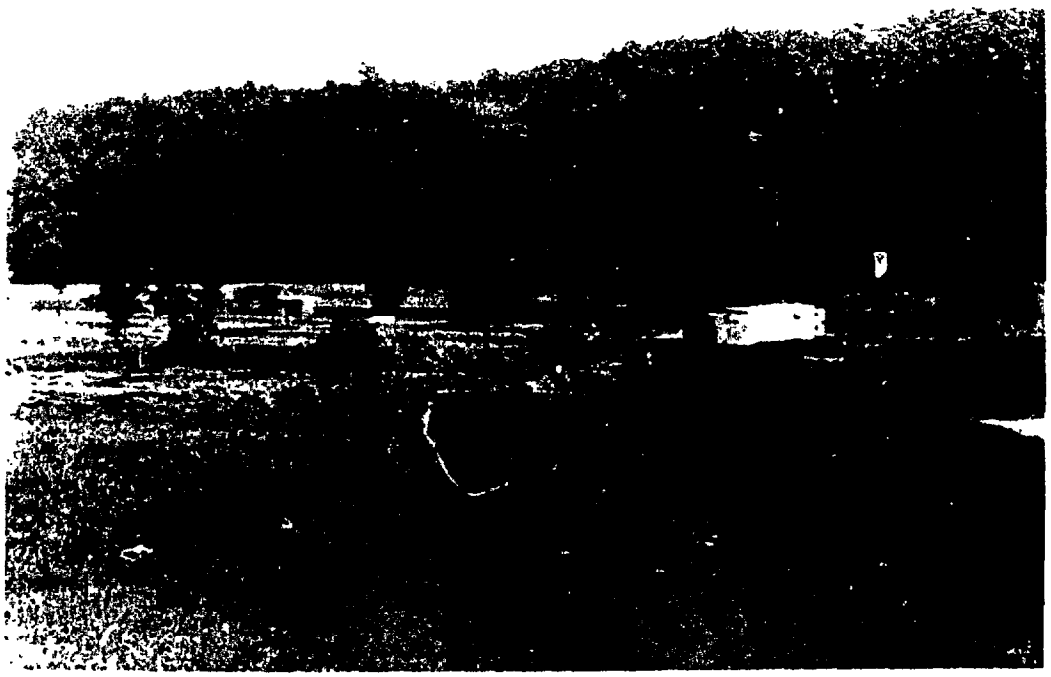
1/The Davis Bacon Act 40 (U.S.C. 276a et seq.) requires that all workers employed on federally assisted construction projects that cost more than $2,000 must be paid the same minimum wages and fringe benefits as the Secretary of Labor determines to be prevailing for corresponding workers on similar projects in the area.

period expired on April 13, 1977, 1/ but at the time of our visit on June 15, 1977, excavation work was just beginning, as shown in the following photograph. The construction start requirement on this $1.2 million project was met by the demolition of an abandoned house at a cost of $2,000.



In the second case where the construction start was met through demolition of an existing structure, because of problems experienced in obtaining building permits, actual construction was not expected to begin until about 8 months after the grant offer was accepted on January 11, 1977. Cost

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1/ Although EDA guidelines provide that the 90-day period is to begin when the applicant receives the grant offer, an EDA regional official told us that this date was frequently unknown and, therefore, the regional office used the date the applicant officially accepted the grant offer. This was the date we used in our review.

of demolition for this $667,487 project was $15,604. The photograph below shows the status of the project at the time of our visit on June 21, 1977.

For another of the five cases, the construction start deadline was met through the initiation of some excavation work and the installation of footings performed under a negotiated contract. The low bid to construct the remainder of this project was substantially above the estimate and, therefore, the project had to be redesigned and new bids solicited. At the time of our visit on June 1, 1977, a representative of the grant recipient told us that bids had been received on the redesigned project and a contract would be awarded in the near future.

For another of the five cases, the construction start deadline was met by performing some survey site work and in the last case by providing the contractor with a notice to proceed with construction. In these cases, actual construction began at the site after about 4 months of the grant acceptance.

Findings of the Commission on Federal Paperwork

The Commission on Federal Paperwork made a study of public work programs to assess the burdens placed on project applicants and agencies and to identify and recommend potential solutions. The Commission's study focused on the local public works program.

In summarizing its findings, the Commission said that the program generally delivered the grant funds efficiently by relying on the applicant and that the efficiency of the program, its basically trustful attitude, and streamlined review process should be considered by the Congress and Federal agencies for other programs.

On the other hand, the Commission said that the expedited application process, while reducing red tape and paperwork, may have made EDA's task more difficult and may have resulted in some inequitable administrative decisions. Further, the Commission said that the results of a National League of Cities' survey it sponsored indicated that there was some question as to whether the applicants understood the implications of the assurances they gave that the various laws and regulations would be complied with. It said that many may not have known what the assurances would entail.

The Commission recommended that EDA assess the techniques used in the program and, when appropriate, they be incorporated in the Department's other construction grant programs. It also recommended that the results of the evaluation be circulated to other Federal agencies for possible incorporation in their public works programs.

PROBLEMS WITH POLICIES AND PROCEDURES FOLLOWED TO AVOID UNDUE CONCENTRATION OF PROJECTS

EDA devised a system, including procedures and computer programs, to avoid the undue concentration of grant funds in certain cities and counties. According to EDA officials, however, only when the final computer run was provided did it become evident that the system would not discriminate sufficently among project areas to achieve its itended purpose. Therefore, they said that a new system, the benchmark procedures described on pages 7 and 8, had to be developed within a matter of days.

EDA officials told us that, once the use of the benchmark procedures was agreed to on December 16, 1976, they did not have the time to write them up as they only had about 3 days left to select the projects. Also, they said that, during the period projects were being selected, decisions were made affecting the procedures, but because of the lack of time, such decisions were not always communicated to all personnel involved in the selection process and were not applied to projects which were previously selected.

EDA advised the House and Senate Subcommittees 1/ of its benchmark procedures in hearings held in January and February 1977 and prepared detailed explanations of its benchmark procedures in affidavits prepared for use in various civil suits. We made a detailed comparison of procedures followed in the States of Massachusetts, New Jersey, and Pennsylvania with EDA's policies and procedures as stated in the congressional hearings and the affidavits. EDA's selections were frequently inconsistent with those stated policies and procedures. 2/

For example, personnel did not consistently follow EDA's procedures of

--selecting projects from an area until the area's benchmark was exceeded,

--rejecting projects once an area's benchmark was exceeded,

--selecting from among tied projects the one which exceeded an area's benchmark by the least amount, and

--establishing county benchmarks for all States.

EDA personnel did not maintain complete records showing (1) the method and sources of data used in calculating the benchmarks, (2) the actual benchmarks calculated, and (3) the basis for decisions made. Because of the absence of such records, in many instances we were unable to verify the accuracy of the benchmarks established and to determine whether projects were selected or rejected in accordance with EDA's procedures.

Procedure of exceeding benchmarks not consistently followed

EDA's procedures provided that projects were to be selected according to rank within a county (or a city) until

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1/Subcommittee on Economic Development of the House Committee on Public Works and Transportation and the Subcommittee on Economic Development of the Senate Committee on Environment and Public Works.

2/The benchmark procedures are presently being litigated in several suits. Our discussion of these procedures is not intended in any way to be a comment on or a judgment of the merits of the suits in which the affidavits were filed.

the selection of one more project would cause the cumulative total of grants for projects within the county to exceed its benchmark. The project that would cause the benchmark to be exceeded would be selected and, normally, no additional projects were to be selected.

For the three States we reviewed, EDA did not comply with this procedure in four instances affecting five cities. The details regarding these four instances are described below.

Weymouth, Massachusetts, had a project selected for $365,508. The score for this project was tied with two others, one for $2,061,200 and another for $4,830,000. Because EDA did not generally keep a record of the benchmarks it computed, we computed a benchmark for Weymouth of $374,858. In the case of tied projects, EDA's procedures provided that normally the project exceeding the benchmark by the least amount would be selected--in this case it would be the project for $2,061,200.

An EDA official told us that the $365,508 project was selected because it was close to the benchmark and that the higher cost project would have an inflationary effect on the small community.

Somerset County, New Jersey, had two projects selected totaling $1,112,250. We calculated a benchmark for the county of $1,651,427 and an unused portion of the benchmark of $539,177. There were two additional projects in the county, one in Belle Mead for $479,719 and one in Watchung for $186,596, that were not selected by EDA although the county benchmark would not have been exceeded until both projects were selected.

An EDA official could offer no explanation as to why the projects were not selected. He said that it was not possible to reconstruct the circumstances relating to the decision as no records were maintained and no one could recall the details relating to the decision. As a result of our inquiries about these projects, EDA included them on its error listing for possible funding under round two.

Washington, New Jersey, had a project for $118,916 which was not selected even though no other project in the city or the county in which the city is located (Warren County) was selected. An EDA official could offer no explanation as to why the project was not selected. As a result of our inquiries about this project, EDA included it on its error listing for possible funding under round two.

Beaver County, Pennsylvania, had two projects selected totaling $917,535. We calculated a benchmark for the county of $1,093,786 and an unused portion of the benchmark of $176,251. On the basis of EDA's procedures, a project in Rochester for $906,717 should have been selected but was not. EDA officials could not explain the reason why the Rochester project was not selected. This project was not, however, included on EDA's error listing.

Procedure of rejecting projects once benchmarks exceeded not always followed

EDA's procedures provided that, once a county's (or city's) benchmark was exceeded, no additional projects should normally be selected from that county.

Secaucus in Hudson County, New Jersey, had a project for $2,446,895 selected even though Hudson County's benchmark had already been exceeded by $111,212. EDA records show that the project was selected because Hudson County had the second highest unemployment rate in the State. In addition, an EDA official told us that he believed that he had the discretion to recommend projects for selection even though benchmarks had previously been exceeded. We found no other instance in the three States where discretion was similarly exercised, including the New Jersey county with the highest unemployment rate.

Procedure for selecting projects exceeding benchmark by least amount not consistently followed

In selecting projects which would exceed a county's (or city's) benchmark, EDA's procedures provided that in the event a project had to be selected from among several with tie scores (1) the project or projects that would result in exceeding the benchmark by the least amount would normally be selected provided the tied projects were from the same applicant and (2) the project judged to provide the greatest long-term benefit would be selected if the tied projects were submitted by different applicants.

An exception to the above rule, described in an EDA internal procedural paper, was that when there was a tie between a large number of projects from the same project area and applicant, the priorities of the applicant were followed in selecting the project(s) to be funded. If the applicant's priorities were not known, EDA considered the relative long-term benefits of the projects in making its selections.

EDA did not follow its procedure of selecting the project that would exceed an area's benchmark by the least amount in five instances in the three States reviewed and, in another instance, two projects were selected when one would have exceeded the benchmark.

The following schedule shows the costs of the projects selected and the costs of the projects that would have been selected had EDA's procedures been followed.

City	Cost of projects selected	Cost of projects exceeding benchmark by least amount	Difference
Union, N.J.	$ 1,565,398	$1,087,027	$ 478,371
Monmouth Beach, N.J.	1,041,222	139,789	901,433
Trenton, N.J.	2,676,445	1,336,176	1,340,269
Cambridge, Mass.	1,729,962	1,499,400	230,562
Upland, Pa.	3,751,860	157,320	3,594,540
Total	$10,764,887	$4,219,712	$6,545,175

New Brunswick, N.J., had two tied projects, one with a cost below the city's benchmark and the other above. Rather than selecting the higher cost project only, EDA selected both projects. The costs of the two projects were $1,000,000 and $40,000.

An EDA official told us that EDA selected the larger projects because they were thought to provide greater long-term benefits. He gave no reason for selecting the two projects in New Brunswick but said that EDA had the discretion to make such selections.

The selection of the projects based on long-term benefits was not in conformity with EDA's procedures since EDA records list the projects as being from the same applicant and the procedures provided for selecting projects exceeding the benchmark by the least amount in such instances. EDA headquarters officials agreed that the exception to the rule concerning large numbers of tied projects would not be applicable to the projects discussed above as the largest number of tied projects was four. Had EDA's procedures been followed, about $6.6 million ($6,545,000 plus $40,000) would have been available to fund projects in other communities.

County benchmarks not established in Massachusetts

EDA procedures provided for computing county and city benchmarks using unemployment data. In those instances where unemployment data was not available, population data was to be used.

In the State of Massachusetts, no county benchmarks were computed because, according to EDA officials, (1) no county unemployment data was available from the Department of Labor, (2) the counties were very large and, therefore, county benchmarks would not be necessary to preclude undue concentration of funds, and (3) the counties were not active political subdivisions; i.e., they provided no services to the population. An EDA official said that there were several other States for which county benchmarks were not computed because of similar reasons.

Had county benchmarks been computed on the basis of population data in Massachusetts, grant funds of about $3.3 million awarded in Suffolk County and about $2.7 million in Essex County would probably have gone to fund projects in other counties.

An EDA official told us that more attention should probably have been given to determine whether county benchmarks based upon population data should have been established but that the very limited time available to analyze such matters prevented this.

CONCLUSIONS

The LPW act imposed strict time frames on EDA in developing and implementing the program in order to generate employment opportunities quickly. In light of the requirements and objectives of the LPW act, the selection process developed by EDA was a reasonable one. This is not to say that the process was without certain failings or that some entirely different process may have been better.

Notwithstanding the reasonableness of the process, problems were experienced in implementing it and many selection errors were made. Data received from applicants had to be accepted with little more than a cursory review, numerous errors were made in the data used in ranking and selecting projects, and inconsistent policies and procedures were followed in selecting projects.

The problems experienced could have been minimized if EDA had more time to develop, test, and implement its regulations and procedures.

MATTER FOR CONSIDERATION BY THE COMMITTEES

Should there be a need for a similar program in the future, we recommend that the Committees, in developing the authorizing legislation, allow the administering agency more time to develop, test, and implement its regulations and procedures.

CHAPTER 4

RELIABILITY OF LABOR STATISTICS USED TO ALLOCATE RESOURCES AND SELECT PROJECTS

The reliability of unemployment estimates, particularly those below the national level, has frequently been called into question. Problems affecting the reliability of unemployment estimates have long been recognized and, although some corrective actions have been taken and others are planned, problems remain which do not lend themselves to easy solution.

For example, the unemployment estimates used for allocating funds to the States were developed through the so-called handbook method which used unemployment insurance data as a basis for estimating unemployment. The reliability of these estimates varies from State to State because of differences in administrative practices and laws regarding the classification of the unemployed for unemployment benefits. This data is relied on heavily in developing estimates used in the handbook method. Although the Bureau of Labor Statistics has taken some action to improve and standardize the data obtained from the States, basic differences in State unemployment insurance programs remain which affect the consistency of the data generated.

The handbook method was also used for developing estimates for the project areas; however, because estimates for smaller areas are generally considered less reliable, the data used for selecting projects was, therefore, less reliable than that used for allocating resources to States. Further, the other method relied on extensively for estimating unemployment of project areas (census share method) merely apportioned current handbook estimates according to the relationship which existed between areas at the time of the 1970 decennial census.

The problems relating to the reliability of the unemployment estimates were further compounded by the manner in which they were used in implementing the program. In our interim report, we noted that:

--The unemployment estimates reported by applicants and used in selecting projects (1) were obtained from different sources, (2) covered different time periods, and (3) were not adjusted for seasonal fluctuations.

--Applicants gerrymandered project areas to obtain the unemployment data considered the most favorable for project selection.

--EDA converted estimates of the number of unemployed workers to logarithms in order to reduce the relative importance of areas with large numbers of unemployed. The legislative and administrative actions necessary to correct these problems were taken prior to implementing the second round of grant awards.

METHODS FOR MEASURING UNEMPLOYMENT

BLS is responsible for developing and publishing the annual and monthly estimates for unemployment in the Nation as a whole, the States, and geo-political subdivisions. The definition of unemployment used by BLS defines unemployed workers as all those who do not have a job, are currently available for work, and have looked for work in the 4 weeks prior to the time of the estimate.

BLS estimates of unemployment are used for a variety of purposes including (1) as a basis for distributing billions of dollars of Federal assistance under such programs as public works, employment and training assistance, public service employment, and area redevelopment, and (2) as a factor considered by the Congress and Federal policymakers in determining the Nation's fiscal and monetary policy.

Although BLS has been responsible for national labor force data since 1959, it was not responsible for the methods used in the preparation of the estimates of employment and unemployment for States and local areas until 1972. The Department of Commerce's Bureau of the Census is responsible for making the actual household surveys.

The three methods used to develop unemployment estimates are the Current Population Survey, the 70-step (or handbook) method, and the census share method. These methods are described below.

Current population survey

Current Population Survey estimates are derived from monthly surveys conducted by the Bureau of the Census of a scientifically selected sample of 55,000 households throughout the Nation. Residents of these households are interviewed to collect, among other data, data on employment and unemployment.

The survey provides statistically valid monthly and annual estimates of national unemployment. The survey also provides annual unemployment estimates which meet a minimum standard of reliability set by BLS, for the 50 States, 1/ the 30 largest metropolitan areas, and the central cities of 11 of these areas.

Handbook method estimates

Handbook method estimates described in the "Handbook on Estimating Unemployment" and the "Handbook on Development of Basic Labor Market Information for Small Areas" are prepared by State employment security agencies (SESAs) under a cooperative Federal-State program supervised by BLS. The estimates are built up through a 70-step procedure relying heavily on counts of workers who claim unemployment insurance benefits in each State, supplemented by a series of estimates to account for workers not covered by the unemployment insurance system. The estimates for noncovered workers are based on relationships previously found to exist between unemployment rates for covered and noncovered workers. The handbook method yields monthly unemployment estimates for States, counties, and major metropolitan areas.

Census share method estimates

Census share method estimates are derived for an area by apportioning current survey or handbook estimates of a larger area, such as a county or major metropolitan area, in the same ratio as that which existed between it and a smaller area at the time of the 1970 decennial census--April 1970. For example, to develop an unemployment rate for a town, the ratio of employment and unemployment that existed in 1970 between the town and county is applied to the current estimates of the county employment and unemployment levels.

RELIABILITY OF DATA DERIVED FROM THE VARIOUS ESTIMATING METHODS

Of the three methods used in the estimating procedures, only the Current Population Survey relies on a sample and, therefore, it is the only one that produces estimates for which the standard sampling error measures can be computed. According to BLS, the monthly and annual statistics produced by the survey for the Nation are highly reliable, whereas the annual average unemployment estimates produced for

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1/Prior to January 1977, the survey provided statistically valid annual estimates for only 27 of the States because of the smaller sample surveyed--47,000 households.

individual States meet only a minimum standard of reliability. The minimum standard now in use by BLS is that there are 2 chances out of 3 that the annual average for a State will be within 10 percent of the rate obtained if a complete census were taken.

The handbook method has been criticized by various sources, including a previous Secretary of Labor. For example, the relationships or factors applied to State counts of unemployment insurance claimants to arrive at estimates of the noncovered unemployed have been criticized because (1) the factors are national in scope and do not necessarily reflect local conditions, (2) some factors are based on relationships which existed several years ago and may not accurately represent current conditions, and (3) less than one-half of the unemployed have been covered by unemployment insurance in recent years. Similar criticisms were made in a GAO report to the Congress "More Reliable Data Needed as a Basis for Providing Federal Assistance to Economically Distressed Areas" (B-133182, May 10, 1971).

In addition, a 1975 BLS study found that significant inaccuracies existed in State counts of unemployment insurance claimants. These inaccuracies also affect the unemployment estimates for noncovered unemployed which are based on the counts of the covered unemployed.

Another problem which must be dealt with to insure the accuracy of the handbook method is the differences in State laws and administrative practices dealing with unemployment insurance benefits which could result in inconsistencies in distinguishing between the employed and unemployed. BLS is attempting to improve the quality and consistency of the data and has contracted with 44 States to standardize coding and other procedures in an effort to eliminate some of these differences for the estimates. Also to increase the comparability of State unemployment data, BLS instituted a procedure for adjusting the monthly handbook estimates for States to the annual data produced by the survey. (This procedure is referred to as benchmarking.)

The Commissioner of Labor Statistics, in testifying on the problems of providing unemployment data to fulfill the antirecession provisions of title II of the Public Works Employment Act of 1976,1/ said that there are serious problems in providing accurate, comparable, and timely unemployment

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1/March 2, 1977, testimony before the Intergovernmental Relations and Human Resources Subcommittee, House Committee on Government Operations.

data for States and local areas and that the quality of this data is cause for concern. Also he stressed that small area data are, and will always be, less reliable than data for large population groups.

The schedule on the following page shows the wide disparity in the survey data and the unbenchmarked handbook data for 1976. For 32 States and the District of Columbia, the disparity between the unemployment rates produced by the two methods varied by more than one-half percentage points.

The census share method is the least reliable of the three estimating methods used because it merely apportions data derived from either the survey or handbook methods in the ratio that existed between two areas in April 1970. The reliability of the data used is dependent upon (1) the reliability of the estimate for the larger area that is to be apportioned and (2) upon the time that has elapsed between the date of the census and the date the method is used (i.e., the more time that has elapsed the more likely the relationships can have changed). In our opinion, little reliance can be placed on the assumption that ratios that existed between two communities in 1970 would still be maintained in 1976.

Criticisms of the definition of unemployment

The definition of unemployment used by BLS (i.e., those persons who do not have a job, are currently available for work, and have looked for work in the 4 weeks prior to the time of the estimate) has received criticism from academicians and others, including a previous Secretary of Labor. The Commissioner of Labor Statistics has suggested that the definition needs review. Remarks have focused on the contention that the definition is no longer appropriate in light of the purposes for which the estimates are being used--particularly as the basis for the allocation of Federal funds for employment and training programs, public service jobs, and public works projects.

The major issue raised and recommendations made by critics of the definition stem from the contention that the relationship between BLS unemployment figures and hardship has been increasingly obscured and that unemployment statistics are no longer the valid measures of economic and social health they once were. For example:

--Certain groups suffering economic hardship are not considered as unemployed in the BLS definition, such as workers with earnings below the poverty level, discouraged job seekers, and part-time workers wanting full-time employment.

Estimates of 1976 Annual
Average of Unemployment Levels and Rates

	Unemployment levels			Unemployment rates		
	Handbook method	Survey method	Amount survey over or under (-) handbook method	Handbook method	Survey method	Amount survey over or under (-) handbook method
	(thousands)			(percent)		
Alabama	99	100	1	6.8	6.8	0
Alaska	19	13	-6	9.8	8.0	-1.8
Arizona	66	93	27	7.6	9.8	2.2
Arkansas	52	62	10	6.1	7.1	1.0
California	911	889	-22	9.6	9.2	-0.4
Colorado	69	71	2	6.0	.9	-0.1
Connecticut	137	139	2	9.4	9.5	0.1
Delaware	19	23	4	7.7	8.9	1.2
District of Columbia	26	30	4	7.4	9.1	1.7
Florida	343	314	-29	10.1	9.0	-1.1
Georgia	138	179	41	6.6	8.1	1.5
Hawaii	31	39	8	8.6	9.8	1.2
Idaho	23	21	-2	6.3	5.7	-0.6
Illinois	368	332	-36	7.3	6.5	-0.8
Indiana	132	148	16	5.6	6.1	0.5
Iowa	65	53	-12	5.0	4.0	-1.0
Kansas	43	46	3	4.1	4.2	0.1
Kentucky	88	81	-7	6.2	5.6	-0.6
Louisiana	108	101	-7	7.4	6.8	-0.6
Maine	37	42	5	8.3	8.9	0.6
Maryland	116	128	12	6.3	6.8	0.5
Massachusetts	214	263	49	8.0	9.5	1.5
Michigan	390	374	-16	10.1	9.4	-0.7
Minnesota	99	110	11	5.4	5.9	0.5
Mississippi	52	62	10	5.8	6.6	0.8
Missouri	111	133	22	5.4	6.2	0.8
Montana	23	20	-3	7.1	6.1	-1.0
Nebraska	35	24	-11	5.0	3.3	-1.7
Nevada	25	27	2	8.4	9.0	0.6
New Hampshire	16	25	9	4.3	6.4	2.1
New Jersey	295	345	50	9.2	10.4	1.2
New Mexico	30	43	13	6.7	9.1	2.4
New York	693	794	101	9.2	10.3	1.1
North Carolina	155	159	4	6.3	6.2	-0.1
North Dakota	15	10	-5	5.2	3.6	-1.6
Ohio	340	369	29	7.2	7.8	0.6
Oklahoma	87	65	-22	7.4	5.6	-1.8
Oregon	98	102	4	9.3	9.5	0.2
Pennsylvania	409	406	-3	8.1	7.9	-0.2
Rhode Island	42	35	-7	10.2	8.1	-2.1
South Carolina	72	87	15	6.0	6.9	0.9
South Dakota	13	11	-2	4.4	3.4	-1.0
Tennessee	124	110	-14	6.8	6.0	-0.8
Texas	295	318	23	5.5	5.7	0.2
Utah	31	29	-2	5.9	5.7	-0.2
Vermont	18	19	1	9.0	8.7	-0.3
Virginia	123	136	13	5.5	5.9	0.4
Washington	137	137	0	8.9	8.7	-0.2
West Virginia	39	51	12	6.0	7.5	1.5
Wisconsin	125	122	-3	5.9	5.6	-0.3
Wyoming	7	7	0	3.8	4.1	0.3

Source: "Estimating State and Local Unemployment: Problems and Perspectives" U.S. Department of Labor, Bureau of Labor Statistics (1977, Report 503)

--Certain groups now included in the estimates, such as students and those in households with incomes above certain levels, may not be suffering economic hardship.

ACTIONS TAKEN AND PLANNED TO INCREASE THE RELIABILITY OF UNEMPLOYMENT DATA

BLS actions

BLS is aware of the inadequacies and concern expressed regarding the unemployment estimates and has initiated or proposed actions designed to improve the estimates. These actions include:

--The Current Population Survey was expanded from 47,000 households to about 55,000 households.

--Further expansion. BLS hopes to have additional households included in the survey to yield monthly survey estimates which meet a minimum standard of reliability for all States.

--Improvement of State unemployment insurance data. BLS plans to initiate a program to improve the quality of the data the States develop on unemployment insurance claimants. Funds will be made available to States for improving data collection systems and procedures.

The Commissioner of Labor Statistics said that more reliable data, collected more frequently, is needed to meet the legislative requirements for local area unemployment rates. One possibility being considered to provide more reliable monthly data at the State level is to expand the survey from 55,000 to 160,000 households. BLS officials said the additional annual cost of such a survey is estimated to be in the neighborhood of $25 to $30 million.

National Commission on Employment and Unemployment Statistics

The Emergency Jobs Programs Extension Act of 1976 (Public Law 94-444, Oct. 1, 1976) establishes a National Commission on Employment and Unemployment Statistics, consisting of nine members appointed by the President. The Commission is to examine the procedures, concepts, and methods involved in employment and unemployment statistics and is to report on its findings and recommendations to the President and the Congress within 18 months after the first five members of the

Commission are appointed. 1/ A major task of the Commission will be to review the definitions of employment and unemployment to determine whether they are adequate.

Within 6 months after the report's submission, the Secretary of Labor is to make an interim report to the Congress on:

> "(1) the desirability, feasibility and cost of implementing each of the Commission's recommendations, and the actions taken or planned with respect to their implementation; and (2) recommendations with respect to any legislation proposed by the Commission, the need for any alternative or additional legislation to implement the Commission's recommendations, and any other proposals to strengthen and improve the measurement of employment and unemployment."

Within 2 years after submission of the Commission's report, the Secretary is to submit a final report to the Congress detailing the actions taken on the Commission's recommendations, together with any further recommendations deemed appropriate.

HOW UNEMPLOYMENT DATA WAS USED IN THE PROGRAM

Allocations made to States

Subject to the statutory minimums and maximums, EDA allocated funds to the States as follows:

--Sixty-five percent of the funds available for distribution was allocated on the basis of each State's share of the number of unemployed in the Nation.

--Thirty-five percent was allocated among those States with unemployment rates above the national average on the basis of the relative severity of unemployment in each State.

The BLS unemployment data used in the October 1976 allocations was developed by the handbook method for the 3-month period of April, May, and June 1976. Because survey data was not available for all States at the time, the handbook estimates used for allocating the first round of funds were only benchmarked to the survey on a one-for-one basis for 27 States and the District of Columbia.

1/ The Chairman of the Commission was appointed July 28, 1977.

Subsequently, expanded survey data became available, enabling BLS to benchmark the handbook estimates for all the States. EDA used these more reliable estimates in allocating the second round of funds to the States on May 16, 1977. 1/ Also, EDA used average unemployment data for the 12-month period ending February 28, 1977, except for three States where calendar year 1976 data was used because of the unavailability of the more current data.

Project selection

In scoring the projects, the number of unemployed and the rate of unemployment accounted for 30 and 25 percent of a project's basic score, respectively. The LPW act required that the unemployment data reported be for the 3 most recent consecutive months and permitted applicants to include the unemployment data for their own jurisdiction as well as for the adjoining areas the labor force would be drawn from.

The latest unemployment data from the two primary sources used for the data--BLS and the SESAs--were not seasonally adjusted and were usually based on different reporting periods. The BLS data used was usually for April, May, and June 1976, while the SESA data used was usually for July, August, and September 1976. Because of this, seasonal employment patterns affected the unemployment data of some applicants.

In accordance with Office of Management and Budget Circular A-46, EDA required applicants to use BLS unemployment data when it was available. The BLS data used was generally that compiled to satisfy the requirements of the Comprehensive Employment and Training Act of 1973 (CETA). The survey, handbook, and census share estimating methods are used to develop the CETA data.

BLS normally obtains CETA unemployment data from the SESAs and submits it to a quality control program to insure it is calculated properly. The time required to do this accounted for the fact that the BLS data was generally less current than that provided by the SESAs.

1/Section 105 (a)(3)(B) of the 1977 act provides, however, that no State whose unemployment data was converted for the first time in 1976 to the benchmark data for the Current Population Survey shall receive a lesser percentage of funds than it received in the first round allocation. An EDA official told us that the only State affected by this amendment was Rhode Island.

Applicants obtained unemployment data directly from SESAs when CETA data was not available or when, because of gerrymandering, their project areas did not correspond to the CETA areas. EDA estimated that SESA data was used on about one-half the applications received.

Legislative and administrative changes affecting use of labor data

The Public Works Employment Act of 1977 included several amendments which affect the use of unemployment data in the second round of funding including:

--Section 105(3) of the 1977 act prescribed a formula for allocating funds to the States based on unemployment data for the preceding 12-month period.

--Section 107(a) of the 1977 act changed the timespan for the unemployment data to be used in selecting projects from the 3 most recent consecutive months to the 12 most recent consecutive months.

--Section 107(e) of the 1977 act repealed the provision permitting applicants to use unemployment data from adjoining areas.

In reporting out the 1977 act, the conferees 1/ stated that, in implementing the second phase of the program, unemployment data is to be determined for project areas; i.e., a city, a county, the balance of a county in which such city is located, or a pocket of poverty where the project is within an urbanized area. They also stated:

> "Although the conferees recognize the need to have comparable unemployment data from one source to assure uniform and accurate measurements of a community's distress, it is also important that a community not be denied assistance under the act because national unemployment figures are unavailable for a local jurisdiction. In such cases as unemployment data is not available from the Bureau of Labor Statistics, the Secretary shall accept State or local data.

* * * * *

1/House Report 95-230 (conference report) April 28, 1977.

"* * * It is the conferees' intent under section 108(c) that if the Economic Development Administration cannot obtain unemployment data from the BLS for a jurisdiction smaller than 50,000 population, or for other jurisdictions where the data is not available for the most recent 12 consecutive months, that the EDA shall request such unemployment information from the State employment security agencies. It is not the conferee's intent to delay the updating of unemployment statistics for project application on file at EDA in allowing the agency to obtain data from the States but the conferees want to insure that EDA has the maximum flexibility in obtaining unemployment data in a timely manner for all eligible applicants under the Act."

EDA's revised project selection process, published in the Federal Register on May 27, 1977, (42 F.R. 27432) relies heavily on substate allocations, State and local government priorities, and ranking of project areas. In making the substate allocations and in ranking project areas, EDA used BLS unemployment estimates covering the 12-month period ending February 28, 1977, for all counties and for all cities with populations of 50,000 or more. For cities with less than 50,000 people, EDA used unemployment estimates it developed through the census share method. According to EDA officials, the unemployment data used was not subjected to logarithmic manipulation.

Although BLS also provided EDA with unemployment data for communities with populations of 25,000 to 50,000 by May 13, 1977, an EDA official said that the data was received too late to be incorporated into the project selection process.

CONCLUSIONS

Actions have been taken to deal with many of the problems regarding the use of unemployment data in the first round of funding the local public works program. Unemployment data for the second round of funding was obtained primarily from one source--BLS--and covered a single 12-month period, gerrymandering of project areas was eliminated, and the unemployment data was not subjected to logarithmic manipulation. Action was also taken that increased the reliability of the unemployment data used in allocating funds to the States.

Problems remain, however, in attempting to obtain reliable and consistent unemployment data below the State

level. These problems have been long recognized but do not lend themselves to easy solution. BLS has taken and proposed some corrective actions and the National Commission on Employment and Unemployment Statistics has been established to study the overall problem.

CHAPTER 5

AGENCY COMMENTS AND OUR EVALUATION

We asked the Departments of Commerce and Labor to comment on our report and their comments, some of which were made on an informal basis, were considered in preparing the final report.

In commenting on the report for the Department of Commerce (see app. I), the Economic Development Administration said that GAO had prepared a comprehensive report on the complex round one program and treated the agency equitably. EDA said, however, that because the Atlantic Regional Office bore a substantial share of the program burden it may not reflect the administration of the program generally. EDA said also that it suspects that it may not be possible to generalize the finding of the Atlantic Region experience to the entire country.

While the Atlantic Regional Office bore a substantial share of the program burden (it processed about 30 percent of all applications), it also had a substantial share of EDA's total regional staff (i.e., about 22 percent), and therefore, we do not believe it should necessarily be considered atypical. Further, the major issues addressed in the report are national in scope and the administration problems discussed serve to demonstrate the effects of these issues. Nevertheless, our field review was limited to the one region and the degree and severity of the problems discussed could vary among the regions.

Although the Department of Labor had no major comments (see app. II), it did suggest some revisions which were considered in finalizing the report.

APPENDIX I

UNITED STATES DEPARTMENT OF COMMERCE
The Assistant Secretary for Administration
Washington, D.C. 20230

12 Dec., 1977

Mr. Henry Eschwege
Director, Community and Economic
Development Division
U. S. General Accounting Office
Washington, D. C. 20548

Dear Mr. Eschwege:

This is in reply to your letter of September 23, 1977, requesting comments on the draft report entitled "Selection Process Used For First Round Of Local Public Works Program - Adequate But Some Problems Experienced."

We have reviewed the enclosed comments of the Assistant Secretary for Economic Development and believe they are responsive to the matters discussed in the report.

Sincerely,

Elsa A. Porter
Assistant Secretary
for Administration

Enclosure

APPENDIX I

UNITED STATES DEPARTMENT OF COMMERCE
Economic Development Administration
Washington, D.C. 20230

DEC 1 1977

Mr. Henry Eschwege
Director
Community and Economic
Development Division
United States General Accounting Office
Washington, DC 20548

Dear Mr. Eschwege:

This responds to your letter of September 23 requesting that EDA review and comment on a draft report on the process used in selecting projects under the first round of the Local Public Works (LPW) Program.

We believe the GAO has prepared a comprehensive report on the complex Round I program and has treated EDA equitably. However, there is one area in the report that possibly could cause misunderstanding and is discussed below.

"Objective and Scope of Review"

This area of the report may have limited the possibilities of placing the findings in proper perspective. Although the Philadelphia Region bore a substantial share of the LPW burden, for that reason it may not reflect the administration of the program generally. We suspect that it may not be possible to generalize the finding of the Philadelphia experience to the entire country.

The Agency will continue to make every attempt to be responsive to questions underlying the conclusions of the GAO report.

If we can be of any further assistance, please let us know.

Sincerely,

Robert T. Hall
Assistant Secretary
for Economic Development