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Report of the State Auditor



STATE OF COLORADO
DEPARTMENT OF LOCAL AFFAIRS
OFFICE OF RURAL DEVELOPMENT
PERFORMANCE AUDIT
REPORT OF THE STATE AUDITOR

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DEPARTMENT OF LOCAL AFFAIRS
OFFICE OF RURAL DEVELOPMENT
PERFORMANCE AUDIT

REPORT OF THE STATE AUDITOR ✓

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STATE OF COLORADO

OFFICE OF STATE AUDITOR

303-839-2051

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State Auditor

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October 12, 1979

Legislative Audit Committee
1200 Lincoln Street, Suite 601
Denver, Colorado 80203

Members of the Legislative Audit Committee:

The following report contains the results of the performance audit of the Office of Rural Development. This report presents our findings, conclusions and recommendations and the responses of the Department of Local Affairs.

Respectfully submitted,

ROBERT J. SCOTT, CPA
State Auditor

STATE OF COLORADO
DEPARTMENT OF LOCAL AFFAIRS
OFFICE OF RURAL DEVELOPMENT

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STATE OF COLORADO
DEPARTMENT OF LOCAL AFFAIRS
OFFICE OF RURAL DEVELOPMENT
PERFORMANCE AUDIT

REPORT DIGEST

This report was prepared in response to footnote #113(b) of the 1979-80 Long Bill which states:

"The audit committee shall complete an evaluation of the productivity of the Office of Rural Development by January 1, 1980. Future funding of the Office shall be contingent upon a positive evaluation of the program."

Major areas recommended for improvement in this report cover such topics as:

- . problems arising from a lack of definition of rural versus urban;
- . organizational ineffectiveness resulting from the placement of the Office of Rural Development within the Department of Local Affairs;
- . targeting techniques, utilized to funnel monies to the indigent areas of the state, and their potential effectiveness; and
- . activities included in the Office of Rural Development's budget request documents submitted to the Joint Budget Committee, over which the Office of Rural Development has had no control,

The overall recommendation of this report is to cease funding the Office of Rural Development unless certain recommendations, see summary recommendation, have been implemented prior to the passage of the 1980-81 Long Bill. Unless changes are made that allow the Office of Rural Development viability, future funding does not appear warranted.

STATE OF COLORADO
DEPARTMENT OF LOCAL AFFAIRS
OFFICE OF RURAL DEVELOPMENT

INTRODUCTION

PURPOSE

In accordance with footnote #113(b) of the 1979-80 Long Bill (S.B. #525), the State Auditor's Office has conducted a performance audit of the Office of Rural Development in order to provide an evaluation of that office.

SCOPE

The evaluation considered: 1) state statutes; 2) agency proceedings; 3) information reported to other governmental agencies; 4) reviews of other agencies; and 5) other items considered necessary during the course of the audit.

A BRIEF HISTORY

The 48th General Assembly, via Senate Joint Resolution #24, created the forerunner of the Office of Rural Development, the Colorado Rural Development Commission, to:

"identify and study the basic causes of economic concentration in urban Colorado and deterioration in rural Colorado and to advise the Governor and the General Assembly of the alternative courses of action which may be necessary or advisable to improve the quality and quantity of economic opportunity throughout the state".

The term of the Colorado Rural Development Commission was authorized for two years beginning April 1, 1971. During this two-year period of study, the Commission developed two major, and

related, conclusions:

1. " . . . the state must be willing to commit itself to the concept of regionalism, . . ."
2. " . . . it (the state) must not hesitate any longer in devising and implementing a definite growth and development policy."

The Commission believed that a continued dedication to rural development was needed. In order to fulfill this continuity, the Commission suggested a permanent office for rural development within the Department of Local Affairs. It was hoped that this effort could also coordinate state activities designed to assist rural areas.

Effective July 1, 1973, the Colorado Rural Development Commission was abolished, and the Office of Rural Development was created via House Bill No. 1376. The Office of Rural Development was by statute (CRS 1973, paragraph 24-32-801 thru 804) created in the Department of Local Affairs with the head of its office, the coordinator (director), to be appointed by the executive director of the Department of Local Affairs.

The executive director of the Department of Local Affairs first assigned the Office of Rural Development to the Division of Planning for administrative responsibility. In March, 1975, the Office of Rural Development was placed under the executive director of the Department of Local Affairs. This move reportedly provided greater coordination for the many departmental programs and inter-departmental programs aimed at community development. On July 1, 1978, the executive director of the Department of Local Affairs assigned the Office Rural Development to the Division of Commerce and Development in order to assist the Division of Commerce and

Development's efforts of encouraging balanced economic growth. The following table shows the placement of the Office of Rural Development within the Department of Local Affairs since its creation effective July 1, 1973.

ORGANIZATIONAL PLACEMENT OF THE
OFFICE OF RURAL DEVELOPMENT

<u>Date/Fiscal Period</u>	<u>Location Within The Department of Local Affairs</u>
July 1, 1973	Creation
73-74	Division of Planning
74-75	Division of Planning
March 1975	Office of the Executive Director
75-76	Office of the Executive Director
76-77	Office of the Executive Director
77-78	Office of the Executive Director
78-79	Division of Commerce and Development
79-80	Division of Commerce and Development

In the opinion of the current Director of the Division of Commerce and Development, the Office of Rural Development should remain in the Division of Commerce and Development to be used to drive the economic resources, obtained through that Division's contacts, into targeted areas. The current executive director of the Department of Local Affairs concurs in the placement of the Office of Rural Development within the Division of Commerce and Development.

OFFICE OF RURAL DEVELOPMENT'S STRATEGY

Since its establishment, the Office of Rural Development has funded FTE's in two offices, Denver and Grand Junction, because it felt that the best way it could serve local governments was to have someone in the field immediately accessible to them and someone in Denver to help them secure the needed financial resources.

This strategy was used until approximately July, 1977, when the 1.5 Grand Junction FTE's no longer were controlled by the

Office of Rural Development. The 1.5 FTE's, represented 1.0 FTE for the position of Associate Director of the Department of Local Affairs in Western Colorado and 0.5 FTE for its secretarial support. The budget for the Office of Rural Development continued to be used to fund these 1.5 Grand Junction FTEs until June 30, 1979, per the Director of the Division of Commerce and Development.

One of the 1.5 FTEs in Grand Junction that was being funded from the Office of Rural Development was to have received funding from some other source effective June 30, 1979. Per the Director of the Division of Commerce and Development, the remaining 0.5 FTE being funded in Grand Junction was to also stop effective January 1, 1980. These 1.5 FTE's have been scheduled for use by the Office of Rural Development in the near future.

With the authority for its FTEs to be under the auspices of the Director (Coordinator) of the Office of Rural Development, a more organized approach to fulfilling its statutory responsibilities and objectives may be realized. The proposed strategy of the Office of Rural Development will be to utilize these FTE's to add two new positions to report to the Director (Coordinator) of the Office of Rural Development to assist in downtown development efforts in the State (see Exhibit C). According to the Director of the Division of Commerce and Development, the division under which the Office of Rural Development is presently assigned, the future goal is four-fold:

- (1) to update the existing targeting statistics;
- (2) to update and disseminate, for feedback from the counties, the targeting strategy;
- (3) to implement the strategy through:

- (a) the A-95 review process, and
 - (b) formal intergovernmental agreements (both state and federal); and
- (4) to implement the downtown development effort.

STATE OF COLORADO
DEPARTMENT OF LOCAL AFFAIRS
OFFICE OF RURAL DEVELOPMENT

AUDIT FINDINGS AND RECOMMENDATIONS

STATUTORY GOAL

The goal of the Office of Rural Development was not specifically stated in the creating statute. This report has interpreted the statute to infer the goal to be:

to provide financial and technical assistance to rural areas of the state by coordinating the activities of the various divisions within the Department of Local Affairs.

The Director of the Division of Commerce and Development's interpretation of the goal was to direct the department's economic programs into the targeted areas. Both of these interpretations are similar, however, both are compromised by one factor; no consistently used definition of "rural".

The executive branch of state government has adopted "Human Settlement Policies". The Department of Local Affairs has adopted a targeting strategy to accompany these policies. This target, however, includes rural areas (e.g. the Alamosa/Monte Vista area) and urban areas (e.g. the Denver metro area) without defining rural or urban. This lack of definition has prohibited clear guidelines for determining compliance with the statutory goal of providing assistance to "rural" areas (see recommendation #1).

STATUTORY OBJECTIVES

The statute that created the Office of Rural Development established six duties of the office (there are seven listed, but one is duplicated), which set forth the legislatively mandated objectives for providing the framework for accomplishing its overall goal. This section of the report lists the Office of Rural Development's statutory objectives found at 24-32-803, CRS, 1973; as amended, reviews whether or not they are being fulfilled, and if so, how.

"(a) Cooperating with and providing technical assistance to local officials for the orderly development of rural Colorado"

"(b) Encouraging and, when requested, assisting local governments to develop mutual and cooperative solutions to rural community development"

Both (a) and (b) have been fulfilled in our judgment through the following:

- (1) when requested, advising counties of available governmental assistance and how it may be received;
- (2) writing grants and/or proposals for counties;
- (3) advising counties on how to prepare requests for aid;
- (4) reviewing grants and other requests; and
- (5) providing any information, via the telephone, that the Office of Rural Development may have to use to promote rural development.

"(c) Studying the legal provisions that affect rural development and recommending to the governor and the general assembly such changes and provisions as may be necessary to encourage rural development"

The Office of Rural Development has assisted in the preparation of several pieces of legislation for the encouragement of economic development in rural areas. Two recent Senate Bills include:

S.B. #371, for the 51st General Assembly (L.D.O. # 77 1172/1) to establish a Colorado Rural Economic Development Authority; and

S.B. #408, for the 52nd Genral Assembly (L.D.O.# 79 0748/1) to establish a Colorado Economic Development Finance Authority.

"(d) Serving as a clearinghouse for rural development information, including state and federal programs designed for rural development"

The clearinghouse function has been provided via telephone by helping rural areas to:

- (1) determine what their needs are;
- (2) to whom they should talk;
- (3) review of any special funds available to them;
- (4) determine the most expeditious way of accomplishing their request; and,
- (5) determine whether or not the Office of Rural Development can support their requested project.

"(e) Carrying out studies and continuous analyses of rural development in the state with particular emphasis on its effect on population dispersion and economic opportunity"

No such studies were conducted.

The Office of Rural Development cited two basic reasons the studies were not conducted:

- (1) previous studies had not resulted in enough accomplishments; and
- (2) there was not enough money.

"(f) Encouraging and assisting, when requested, local governments to develop mutual and cooperative solutions to rural community development"

This section is a duplicate of section (b).

"(g) Contracting with the federal government or any agency or instrumentality thereof and receiving any grants or monies therefrom for purposes of rural development in Colorado"

The Office of Rural Development has worked with several agencies in the past. Recently, its efforts with the federal government have been directed toward two areas:

- (1) the Economic Development Act, Section 302, for economic planning; and,
- (2) Intergovernment Personnel Action with the Department of Housing and Urban Development (the agency was recently requested to partially subsidize one of the Office of Rural Development's new downtown development positions).

The statutory objectives, appear to have been implemented with the exception of "(e)", requiring studies and continuous analyses. The omission of this objective appears to have been caused from operating with one FTE since approximately July 1977. Effort has been made to begin utilizing the Office of Rural Development's appropriated FTE's by planning to align them under the direction and control of the Director of the Office of Rural Development.

It should be noted, however, that in our opinion, the effectiveness of this statute's objectives, designed to coordinate the activities of the various divisions within the Department of Local Affairs for "rural" development, have been severely diluted by two things:

- (1) the organizational placement of the Office of Rural Development under the supervision of one of the divisions (Commerce and Development) whose activities it is required to coordinate (see recommendation #3); and,
- (2) the ambiguities surrounding the lack of a definition of rural versus urban (see recommendation #1).

These two statutory weaknesses will be discussed in depth, later in this report.

ORGANIZATIONAL RELATIONSHIPS THAT NEED IMPROVEMENT

The organizational structure of the Office of Rural Development appears to have three areas needing improvement:

- (1) The Four Corners Regional Commission Staff was omitted from the organizational structure charts, but included in the Office of Rural Development's budget;
- (2) There could be some statutory conflict, depending on the statute's interpretation, with the Office of Rural Development funding downtown specialists; and
- (3) The Office of Rural Development, by statute, was mandated to coordinate all of the divisions within the Department of Local Affairs. The placement of the Office of Rural Development within one of the divisions is not, in our judgment, the most logical place for overall Departmental coordination.

In order for employees as well as the public to be able to more effectively relate to an organization, the organizational chart should reflect all of the organizational relationships. The organizational chart of the Division of Commerce and Development had omitted the Four Corners Regional Commission (See Exhibit A). During our audit, a new organizational chart was submitted to us showing the Four Corners Regional Commission staff (See Exhibit B). Since our audit did not encompass a review of the organizational charts for areas not related to the Office of Rural Development, we accordingly did not examine them beyond this observation.

The statute establishing the Office of Rural Development did not define rural or urban. There also does not appear to be a definition that has been universally accepted. Depending on how one was to define rural and urban, there may or may not be a conflict between the establishing statute and the future plans of the Office of Rural Development to create two "downtown development"

positions to be housed and funded in the Office of Rural Development (See Exhibit C). One of these positions was to be 2/3 funded by HUD federal funds, the remaining 1/3 to be paid from the State's general fund.)

The Department of Local Affairs should develop definitions of rural and urban to be utilized departmentally, except in those instances where existing grants, etc., prohibits such use because of definitions incorporated in such grants, etc. The establishing of definitions to be utilized departmentally, would appear to provide a more effective approach toward targeting efforts as well as better enabling the public to relate to the department. Since the statute requires the Office of Rural Development to coordinate the various divisions within the Department of Local Affairs, the establishment of consistent definitions would implement this goal. This definitional approach would also eliminate confusion arising from whether there should be a combined Office of Urban and Rural Development (proposed January 1979, but never adopted); an Office of Urban Development (abolished effective September 15, 1979); an Office of Rural Development (not limited to rural areas); or an Office of Rural Development (limited to definite rural areas).

Recommendations

1. The Department of Local Affairs should develop and consistently use definitions of rural and urban on a department-wide basis.

AGENCY'S RESPONSE: This issue is not limited to the Department of Local Affairs. State statutes contain varied citations about urban or rural program emphasis. The Department believes a consistent definition should be developed for use throughout state government, but questions whether this should be legislatively or executive initiated. For purposes of the Department, there

is not a clear distinction between urban and rural. There is a clear distinction of what comprises Colorado's urbanizing corridor--the "Front Range". This includes Larimer, Weld and El Paso counties and the Denver SMSA (Standard Metropolitan Statistical Area). In terms of the Office of Rural Development, I fully expect its resources and effort to be extended to those communities outside the Front Range. However, as you know, there are places with rural characteristics and rural identities within the Front Range. Conversely, there are urban areas, like Durango, Grand Junction and Pueblo outside the Front Range.

The Department has not made a precise identification of urban and rural places for other reasons as well. One is that communities do not like to be labeled. Urban versus rural is often a divisive technique when applied to communities.

Secondly, there are numerous U.S. Census and federal agency definitions for urban and rural. I cannot arbitrarily accept any one of them as fitting Colorado communities.

Unless the Committee specifically directs this Department to make precise urban and rural distinctions, I prefer to continue the use of "Front Range" as Colorado's urbanizing corridor. All counties outside the "Front Range" will be considered rural for Departmental purposes and programs.

2. According to the definitions developed in recommendation #1, there should be a reevaluation of the inclusion of downtown developers within the Office of Rural Development. If there is a statutory conflict, the department's emphasis placed on urban/downtown development should be funded from a more appropriate source. If the Department of Local Affairs believes that it can best serve both rural and urban needs by combining their responsibilities, then a statutory change should be sought from the legislature prior to implementing that organizational approach.

AGENCY'S RESPONSE: The Department feels the current four-fold effort of the Office of Rural Development as assigned to the Division of Commerce and Development represents an optimal use of extremely limited resources. The development and implementation of a strategy to deliver state and federal economic development resources to fifty-four incorporated municipalities (only six of which are in the Front Range) will significantly contribute to the development of rural communities. The proposed downtown development effort, slated to begin on December 1, 1979, is consistent with this

strategy and designed to keep "mainstreet" Colorado economically viable. The Office of Rural Development, through contact with Alamosa, Gunnison, Cortez, Durango, Montrose, Delta, Trinidad, Sterling, Grand Junction and other communities has learned that existing local governments and business organizations are desirous of keeping their commercial areas economically viable by 1) capturing increased sales related to growth, 2) adding new business to existing commercial corridors and 3) directing growth into existing service areas. Many of these places are experiencing growth that could go out of town and adversely affect local businesses. Demand for downtown development and commercial revitalization assistance is sufficient to warrant this aid from the Office of Rural Development.

The involvement of urban local government and urban business organizations in this effort is logical and necessary. Towns such as Greeley, Denver and Colorado Springs have developed local organizations, financial expertise and development techniques that should be shared with rural municipalities. The Department has proposed that this will take place through workshops and conferences designed to let all communities share knowledge and experiences related to downtown development.

This direct approach to an emerging rural development issue is far preferable for the use of our staff resource than special studies, legal analysis, etc.

If the statute establishing the Office of Rural Development is to be effectively fulfilled to implement the coordination of the various divisions within the Department of Local Affairs, the Office of Rural Development should not be organizationally located within one of the divisions whose activities it is to coordinate (See Exhibit D). The placement of the Office of Rural Development in an organizational position at least equal to those divisions it is required to coordinate would allow more viability because of its position, and more mobility because of the lack of specific organizational restraints. This change in the organizational location would allow the Office of Rural Development to have the most logical organizational relationships necessary to effectively provide the coordination with those areas it most closely works:

the Division of Commerce and Development, the Division of Local Government, the Division of Planning, the Division of Housing, and the Department of Labor and Employment.

Recommendation

3. In our opinion, in order to most logically perform its statutorily required duty of coordinating the activities of the various divisions within the Department of Local Affairs, the Office of Rural Development should be placed in an organizational position at least equal to that of the divisions whose activities it is charged with coordinating.

AGENCY'S RESPONSE: The role of coordinating is in fact higher than division level. The Department's Executive Director is the only possible person who can serve the coordination functions outlined in the statutes. This role is separate from, but related to, the role of the Director of the Office of Rural Development. The office Director is responsible for the targeting strategy, handling regular assistance requests and the downtown initiative. The Department's Executive Director coordinates rural development through Departmental policies, inter-divisional program activities, and assignment of the Office of Rural Development staff to the most appropriate organizational unit. Rural Development is naturally aligned with Commerce and Development, the entity which business organizations and local government access to pursue developmental opportunities.

The Executive Director plays an external coordination role, representing rural development interests with other members of the Executive Branch by virtue of her policy coordination function on various entities. These include: 1) the Energy Coordinating Council, 2) the Impact Advisory Committee, 3) the Planning Coordinating Council and 4) the Human Services Policy Council.

It does not make good sense to attempt to justify 2.5 FTE's as a division. To place the staff in the Executive Director's Office would not enhance the Executive Director's assumption of the coordination role and would detract from the Office's access to the Department's economic developmental entity, the Division of Commerce and Development.

Lastly, the Department has received no constituent criticism of the present placement.

PROJECTED TARGETING EFFECTIVENESS

The Division of Commerce and Development released a document entitled "Growth and Human Settlement Policies and Regional and Local Targeting Strategies". This document was a step toward targeting the Department of Local Affairs efforts to those areas in greatest need. Implementation of these targets by the Department of Local Affairs did not begin until fiscal year 79-80. The Governor of Colorado adopted the "Growth and Human Settlement Policies" as a part of this document by executive order on September 13, 1979. (See Exhibit E for a map of targeted areas in Colorado). This targeting strategy ranks Colorado's 63 counties into one of three priorities:

TARGETING PRIORITIES

<u>Counties</u>		<u>Classification</u>
<u>#</u>	<u>% to Total</u>	
21	33	Counties in severe distress
22	35	Counties in distress
<u>20</u>	<u>32</u>	Counties not in distress
<u>63</u>	<u>100</u>	Total

Those counties ranked either in distress or in severe distress represent 68% of the counties in the state. The criteria utilized to develop: a severely distressed county required the county to be above the statewide average in at least two of the following categories, a distressed county was designated as such if above the statewide average in only one of the following categories; a county not in distress was not above the statewide average in any of the following categories.

- . Unemployment % - annualized unemployment averages (available three months after the end of the year)
- . Public Assistance % - average number of people receiving public assistance money, but who are not unemployed, as a percent of the mid-year population (available nine months after the end of the year)
- . Public Assistance Compared to Local Revenue % - amount of public assistance money paid by the county (other than state money) as a percent of the county's total revenues (available 12 to 15 months after the end of the year)

The targeting efforts undertaken should be commended, however, there were four areas noted that might improve these efforts:

- (1) the addition of criteria as addressed by the establishing statute, to reflect the migration from the rural counties to the urban counties;

NOTE: This would require the development of definition of rural and urban (see recommendation #1)

- (2) a restriction of the definition of distressed or severely distressed counties so the target can be reduced from its existing 68% of the counties to a more realistic number;
- (3) a better coordination between the use of regions for planning and counties for distributing monies; and
- (4) an adaption of a targeting strategy for rural development that excludes metropolitan areas.

The legislative declaration in the statute establishing the Office of Rural Development as well as the Colorado Rural Development Commission, emphasized a concern for the problems created by the migration of people from the rural to the urban areas. The addition of criteria to reflect this migration would appear to further enable the targeting criteria to address those areas intended by the establishing statute.

Recommendation

4. In order to address a prime concern of the statute, a targeting criterion should address the migration of people, youth in particular, from the rural to the urban areas.

AGENCY'S RESPONSE: The state has little ability to affect migration patterns from rural to urban areas or from frost-belt to sunbelt states because these patterns are driven by national and international economic forces and federal policies beyond state control. For example, the mechanization of agriculture has driven many young people from farm communities. The forces influencing this trend cannot be countered at the state level, much less through 2.5 FTEs. A legislative commitment to a growth and stabilization policy including a decentralization of state government could exert an influence on migration; however, the extent of the influence would be overshadowed by external forces. Secondly, migration data is based on a ten year census with the latest base year as 1970. The accuracy and timeliness of this data is not sufficient to identify areas needing priority state attention in 1979.

Unless there is at least as much money available as there are requests for money, there should be a narrowing of the area designated to receive prime consideration for distribution of available monies. A restriction of the definition of distressed would reduce the "distressed" designated counties from 68% to a more workable amount.

Recommendation

5. Presently, the area targeted for financial and technical assistance, defined as counties in distress and severe distress, represents 68% of the counties in the state. This targeted area, in our opinion, should be narrowed to realistically allow more significant results to be produced.

AGENCY'S RESPONSE: Counties are used as the starting point to identify conditions of distress. More precise targeting has occurred and is represented by the fifty-four incorporated municipalities designated as job creation and economic development targets. Only fifty-four of some three hundred municipalities are singled out for special attention. This represents 18% of Colorado's communities. Of the fifty-four identified only six are inside the Front Range. (See "targeting strategy" dated October 1, 1979, as provided to audit staff.)

The use of multi-county areas for planning and single county areas for the distribution of monies has created what appears to be an uncoordinated governmental effort toward resolving problems within the state. This situation has created an apparent need to go to a concept of either counties or regions, or devise an efficient readily understandable coordination of the two.

One of the two major conclusions set forth by the Colorado Rural Development Commission, the pilot program for the Office of Rural Development, was that "the state must be willing to commit itself to the concept of regionalism".

"Individual towns and counties in rural areas do not have the population or the funds to support the technical and professional staff they need. These entities joined together in multi-purpose regions, can, however, provide the necessary fiscal and manpower resources. The designation of planning and management districts will provide a basis for coordination of local planning, alignment of federally initiated sub-state programs, and planning and administration of state programs."

The development of a targeting strategy for distribution of financial and technical resources has not geographically coincided with the efforts placed in the planning strategy. If the boundaries for a region have not been satisfactorily designated, then those boundaries should be adjusted accordingly. If the planning and targeting areas were coincided, this would have the effect of coordinating the areas used by the Division of Planning with the targeting of economic and technical aid.

Recommendation

6. The targeting effort for distributing economic and technical resources is not synonymous with the planning efforts of the state. There needs to be either a more workable link between the two, or the Department of Local Affairs should adopt a policy that consistently utilizes either counties or regions.

AGENCY'S RESPONSE: Both distress data and targets can be identified on a substate district basis. Since the Office of Rural Development effort is intended to stress implementation through targeting of resources, local identification is preferred. The Department does not have the financial resources to provide the councils of governments and planning commissions with staff to conduct their own targeting efforts. These organizations have been distributed the targeting strategy and conduct reviews of individual projects through the A-95 system.

Included in the targeting strategy utilized by the Office of Rural Development, were major metropolitan areas. Without consistently used definitions of rural and urban, this would appear to be too ambiguous to allow optimum effectiveness from the State's rural development efforts. Since some monies available have been restricted for distribution in rural areas only (e.g. Farmers Home Administration), there should be a targeting strategy that emphasizes priorities within rural areas (counties, regions, or whatever type area is finally decided). In order to ascertain if the "areas" in most need are receiving the monies designated for their benefit, an annual report should be made showing where the targets are and where the monies have been distributed. This annual report on targets effectiveness should be submitted with the Office of Rural Development's budget request documents.

It would appear that some significant change in the allocation of funds process needs to be made compared to last year's (FY 78-79) formula in order to achieve FY 79-80 target effectiveness.

Although the targeting strategy was not in effect during FY 78-79, this audit tried to measure the potential performance effectiveness of the Office of Rural Development. A request was made for a listing of all those projects that received comments

from the Office of Rural Development for distribution of economic assistance during FY 78-79. The objective was to measure what percentage of those projects receiving recommendations were funded in accordance with those recommendations. A listing of 136 projects receiving comments was received. There were 85 projects, 63% of those listed, without funding outcomes noted. When queried, it was revealed that approximately 5/6 of those projects without funding outcomes were attributable to the information not being maintained in readily available condition, or not locatable. The remaining 1/6 of these 85 projects were estimated to have still been in progress. Although we were unable to perform the original objective of the test, some valuable correlations were observed.

Ninety-five percent of the dollar amount of the 136 projects reviewed by the Office of Rural Development during FY 1978-79 were funded from one source, the Farmers Home Administration. In order to determine how the pre-targeting distribution of monies fit with the new targeting strategy, it appeared reasonable to analyze the known allocation of Farmers Home Administration monies made during FY 78-79 (See Exhibit F). Although the conclusions made from this analysis were not exact, they were reasonable in our judgment, to determine the main thrust of economic assistance delivery compared to areas targeted to receive monies during the following fiscal year, 1979-80.

From those projects reviewed the following highlights were observed:

- . Of the 136 projects reviewed, 115 received positive recommendations to fund
- . A comparison of positive recommendations to fund with future targeted areas revealed:

- 21% to counties in severe distress
- 60% to counties in distress
- 17% to counties not in distress
- 2% to multi-county projects

100% total positive recommendations

An analysis of dollars distributed in Colorado from the Farmers Home Administration for FY 1978-79 was as follows on Table #1:

TABLE 1

Target Areas	Dollars Allocated		# of Jobs Created		Average Cost Per Job - \$
	# Amount	% to Total	# Amount	% To Total	
Severe distress	3,959,000	12	138	6	28,688
Distress	27,150,000	82	2,094	88	12,966
Not-in-distress	<u>1,900,000</u>	<u>6</u>	<u>134</u>	<u>6</u>	14,179
Total	<u>33,009,000</u>	<u>100</u>	<u>2,366</u>	<u>100</u>	13,951

As indicated from the above table, only 12 % of the monies and 6% of the jobs were distributed to those areas targeted as in severe distress. This would appear to indicate that a major change in the method of distributing monies to the targeted areas is needed in order for the prime targeted areas to receive monies intended for them.

In order to improve the potentially deficit areas in the targeting structure, the following recommendations should be considered:

Recommendations

7. The targeting strategy utilized for distributing monies intended for rural "areas" should exclude urban/metropolitan "areas" by definition and/or by creating targets that contain no urban/metropolitan areas.

AGENCY'S RESPONSE: The Department through the targeting strategy cannot order federal agencies to direct their financial resources (grants and loans) to the areas the Department believes are most in need. The targeting strategy and its economic and job creation targets seek to divert "discretionary" federal resources to the state targets. The Office of Rural Development reviews all economic development grants and loans to seek compliance with the state targets. It cannot prevent an agency such as the Economic Development Administration from funding some urban areas because this agency has an urban and rural program. The inclusion of six urban targets allows the Division of Commerce and Development to influence all federal economic development grants and loans to the state targets--urban (where applicable to the federal program) and rural (applicable to most of the federal economic development resources coming to Colorado). In fact, FMHA (Farmers Home Administration) cannot spend money in any community over 25,000 in population. The exclusion of urban targets in the Division strategy would not divert more resources to rural targets.

8. In order to make sure the available economic and technical resources have been funneled into the targeted areas, annual statistics should be prepared to show how the indigent areas (targeted areas) compare to the areas receiving the economic and technical resources.

AGENCY'S RESPONSE: The Department concurs in this recommendation and feels it can be implemented immediately. Federal grants and loans awarded are now formally reported to the Office of State Planning and Budgeting. This office can provide the statistics to show the impact of the rural development effort.

9. An immediate analysis should be performed and any necessary changes should be incorporated into the procedures used to distribute the economic and technical resources into the rural targeted areas of the State.

AGENCY'S RESPONSE: The Office of Rural Development and Division of Commerce and Development make periodic reviews of changes in federal laws and state and federal rules applied to economic development programs. The staff does make formal comments and occasionally meets with agency staffs to improve procedures used to distribute economic and technical resources to targeted areas.

BUDGETED OPERATIONS REPORTED TO THE JOINT
BUDGET COMMITTEE VERSUS ACTUAL OPERATIONS

Synopsis

The Office of Rural Development's documentation submitted to the Joint Budget Committee in their budget request, has differed from the agency's actual operations in both FTE's and dollars.

This section will discuss the ways in which these discrepancies exist and make recommendations for corrective action. Exhibit G was included to indicate the use of the budget that was reported to the Joint Budget Committee.

What Discrepancies Exist?

The inappropriate inclusions of FTE's and dollars in the Office of Rural Development's budget since July, 1977 were from two sources: the Four Corners Regional Commission and, operations of the Department of Local Affairs Grand Junction Office. First, a general introduction to the Four Corners Regional Commission.

The Secretary of the Federal Department of Commerce was authorized to designate "economic development regions" within the United States by Title V of the Public Works and Economic Development Act of 1965. On December 19, 1966, parts of Arizona, Colorado, New Mexico, and Utah were designated as the multi-state Four Corners region. In 1975, the boundaries of the region were expanded to include the entire states. One year later, 1976, the State of Nevada was added to the Four Corners Region that today encompasses the five state economic development region. The Secretary of the Federal Department of Commerce is responsible for providing policy guidance and direction as well as coordination, and be liaison

between these regional commissions and the Federal Government. Each regional commission's membership consists of one Federal member, and one member from each participating State in the region. State members have been designated by P. L. #94-487 to be the governor of each state. Colorado's representative to the Four Corners Regional Commission has always been the governor. The supporting staff, that worked in the Department of Local Affairs to help plan and channel the flow of available Federal monies to localities within Colorado, have been included in the FTE and dollar requests made by the Office of Rural Development to the Joint Budget Committee since fiscal year 1975-76, including fiscal year 1979-80 (See Exhibit H). On May 10, 1979 these 3.5 FTE staff positions (receiving subsidy from the Federal government) were abolished from the state personnel system and on May 11, 1979 were reestablished by appointments made by the Governor's Office.

Inquires made during the audit revealed no formal reason for the change. Some of the responses from various people interviewed citing reasons for the change of the positions from the State personnel system to the governor's appointed positions were:

- . in order to make the positions more responsive to the governor
- . there were no qualified people within the personnel system who had knowledge of the regional policy issues
- . the personnel system did not respond quickly enough to the needs of the position
- . there had been a major change in the thrust of this program since its original inception, and it is now definitely a Governor's program . . . the program is now multi-state in character, as opposed to dealing only with communities or counties within the State of Colorado

- . it is none of your business, since the positions are Federally subsidized, the Governor can do whatever he wants.

When asked what was used to justify the change in the Four Corners positions, the Department of Personnel stated on October 10, 1979 that they had not developed written criteria for reviewing such changes. The Department of Personnel did state, however, that they had established the following broad general criteria:

- (1) location, source of funding and control;
- (2) reporting arrangements;
- (3) nature of duties and permanency of positions; and,
- (4) whether multi-state function or not.

The following is an analysis of each criterion stated above:

(1) location, source of funding and control

Two of the 3.5 FTEs are physically located in the division of Commerce and Development within the Department of Local Affairs exactly where the previous staff were housed.

The remaining 1.5 FTE's were used to establish the Governor's new Intergovernmental Staff.

The source of funding has not changed; the 3.5 FTE's are Federally funded by an ongoing grant the State has been receiving from the Four Corners monies.

The administrative control was, and has remained, within the Division of Commerce and Development of the Department of Local Affairs for two of the 3.5 FTEs. The control of the remaining 1.5 FTE's obviously shifted when they were moved from their existing location to help establish the Governor's Intergovernmental Staff.

(2) reporting arrangements

Two of the 3.5 FTE's did and continue to have a three tiered reporting structure as illustrated on Table 2:

TABLE 2

<u>Duty With Four Corners Regional Commission</u>	<u>Relationship to Four Corners Regional Commission Staff</u>	<u>Duty with State of Colorado</u>
Colorado Representative	Appointment to positions	Governor
Representative's Alternate	Assigns projects	State Treasurer
Assistant Alternate	Administrative supervision	Director of Division of Commerce and Development

The remaining 1.5 FTE's of the Intergovernment Staff will report directly to the governor.

(3) nature of duties and permanency of position

Two of the 3.5 FTE's job descriptions were substantially the same both before and after the change. The remaining 1.5 FTE's were not analyzed.

The Four Corners Regional Commission appears an ongoing program, thus justifying permanent positions.

(4) whether multi-state function or not

In our opinion, there appears no change here, since the program was established as a multi-state cooperative in 1966.

In summary, in our opinion, there appears no justification for the abolishment of the Four Corners personnel system jobs and their subsequent reinstatement as appointed positions by the governor. Since the Department of Local Affairs helps to distribute other Federal monies, the placement of the Four Corners program in the Department appears more logical choice for a better coordinated state aid program. Also, the inclusion of these Four Corners positions of the Governor's Office appear to be in violation of Article XII, Section 13(2) of the State Constitution which restricts such appointments to employees " , , whose functions are confined to such offices and whose duties are concerned only with the administration thereof".

Recommendation

10. The 3.5 FTE positions, appropriated to the Office of Rural Development for the Four Corners Regional Commission staff by the Joint Budget Committee, but abolished on May 10, 1979 to subsequently become appointed positions of the Governor's Office on May 11, 1979, should be reinstated by the personnel system of the State. According to Article XII, Section 13(2) of the State Constitution, these positions appear not properly classified as appointed positions of the Governor's Office.

AGENCY'S RESPONSE: The Department does not feel this recommendation should be covered in the scope of the performance audit of the Office of Rural Development. The 3.5 FTE associated with the Four Corners program existed before the legislature created the Office of Rural Development. These positions were budgeted in the rural development narrative of the Division of Commerce and Development for organizational convenience.

The second inappropriate inclusion funded through the Office of Rural Development's budget has been 1.5 FTE's used to help staff the Department of Local Affairs' Grand Junction Office. Since July 1977, these 1.5 FTE's have not been subject to control (authority over nor responsibility for) by the Director of the Office of Rural Development. Per discussion with the Director of the Division of Commerce and Development, the position to whom the Director of the Office of Rural Development reports, 1.0 of these Grand Junction FTEs has not been included in the Office of Rural Development's budget since June 30, 1979 nor will it appear in the final (actual) budget expenditures to be reported at a date subsequent to the date of this report. The Director of Commerce and Development also stated that the remaining 0.5 FTE secretarial position in Grand Junction would no longer be funded through the Office of Rural Development's budget beginning January 1, 1980. These efforts, in our opinion, have the effect of strengthening the potential performance of the Office of Rural Development by allowing its director control over the FTE's and dollars included in its budget.

This leaves 1.0 FTE for the Office of Rural Development as illustrated below:

FTE'S APPROPRIATED THROUGH THE OFFICE
OF RURAL DEVELOPMENT'S BUDGET FOR
FISCAL YEARS 1978-79 AND 1979-80

<u>FTEs</u>	<u>USE</u>
3.5	- Four Corners Regional Commission Staff
1.5	- Department of Local Affairs' Grand Junction Office
1.0	- Director of the Office of Rural Development
<hr/>	
<u>6.0</u>	Appropriated FTEs

Of the 6.0 FTEs included in the Office of Rural Development's budget, the Director had no authority to determine the actions of nor responsibility for the performance of 5.0 FTEs. Thus it would appear that the direct efforts being placed in the Office of Rural Development were misleading to the Joint Budget Committee when requesting authorization for FTEs and dollars.

For the State's system of budget appropriations to properly work, a clear representation must be made in the budget request documents submitted to the Joint Budget Committee for budget appropriations.

Recommendation

11. The FTE positions and their related costs for the Four Corners Regional Commission staff, the funded FTEs for the Department of Local Affairs Office in Grand Junction, or any others should be either responsible to the Director of the Office of Rural Development, or the FTEs, budget dollars, and related programs should not be reported to the Joint Budget Committee for budget purposes as being in the Office of Rural Development.

AGENCY'S RESPONSE: The Department concurs in this recommendation and will implement it.

PROBLEMS CREATED BY A LACK OF PERSONNEL GUIDELINES
THAT RECOGNIZE NON-SUPERVISORY POSITIONS

The Office of Rural Development at the writing of this report was funding 1.5 FTE's for the Department of Local Affairs Grand Junction Office: 1.0 FTE for administration, and 0.5 FTE for secretarial help. The 1.5 FTEs in Grand Junction does not report, either directly nor indirectly, to the director in Denver. The Director of the Office of Rural Development has not directly nor indirectly supervised anyone since July 1, 1977. This appears not to have been in conflict with the statute since the statute requires a coordination effort from the Office of Rural Development, not a supervisory function; although a supervisory function is not specifically excluded.

In August 1978 the Department of Personnel notified the Director of the Division of Commerce and Development, the position to whom the Director of the Office of Rural Development reports, that the lack of supervision of at least two professional-level positions does not support the salary classification of the Director of the Office of Rural Development. In an effort to ameliorate the situation, without having the Director of the Office of Rural Development demoted, the Director of the Division of Commerce and Development agreed to assign the Four Corners Program to the Office of Rural Development.

No further communication was made to follow-up on this situation by the Department of Personnel until this audit. The effect of this situation was to create an inaccurate portrayal of the Office of Rural Development to the Department of Personnel,

During this audit, we met with the Department of Personnel's representative to the Department of Local Affairs and discussed this situation. The representative was unaware of the letter or the situation. Although he was not sure that there was a solution that required no supervision, he agreed to investigate the situation. In our opinion, requiring unnecessary supervision in order to maintain one's job status encourages unnecessary empire building and erodes confidence in the personnel system. Because of the future intent to place two positions under the supervision of the Director of the Office of Rural Development, this situation might resolve itself. The Department of Local Affairs should, however, investigate other alternatives to this situation. Ignoring or erroneously reporting the situation should not be an acceptable solution.

OVERALL CONCLUSION

It appears that a great deal of personal energy has been expended by many people, including the legislature, in the area of rural development. If these efforts are to be effectively utilized to promote rural development through the Office of Rural Development, there must be some changes made in how that office is operated. This report has offered twelve recommendations that, in our opinion, would, if implemented, change the operations of the Office of Rural Development to allow a greater impact on rural development in Colorado.

If the Office of Rural Development is not designed to be, and/or allowed to become, effective, then, in our opinion, future funding should be ceased. It is the conclusion of this report that future funding for the Office of Rural Development not be appropriated, unless those recommendations included in the following recommendation, previously listed in this report, are implemented prior to legislative passage of the 1980-81 Long Bill.

Recommendation

12. Future funding of the Office of Rural Development should not be made unless all of the following have been accomplished prior to legislative passage of the 1980-81 Long Bill:
 - (1) development and consistent use, throughout the Department of Local Affairs, of definitions for rural and urban (see recommendation #1);
 - (2) placement of the Office of Rural Development in an organizational position at least equal to the various divisions whose activities it is statutorily charged with coordinating (see recommendation #3);
 - (3) **include in the targeting strategy used by the Office of Rural Development, a criterion to address the migration of people from rural areas to urban areas (see recommendation #4);**

- (4) performing an immediate analysis and adopting any necessary changes to provide adequate procedures to be utilized to distribute the economic and technical resources into the targeted areas (see recommendation #9); and
- (5) include in the budget for the Office of Rural Development, only those FTEs, dollars, and the programs that are controlled by the Director of the Office of Rural Development (see recommendation #11).

EXHIBIT A
ORGANIZATIONAL CHART OF THE
DIVISION OF COMMERCE AND DEVELOPMENT

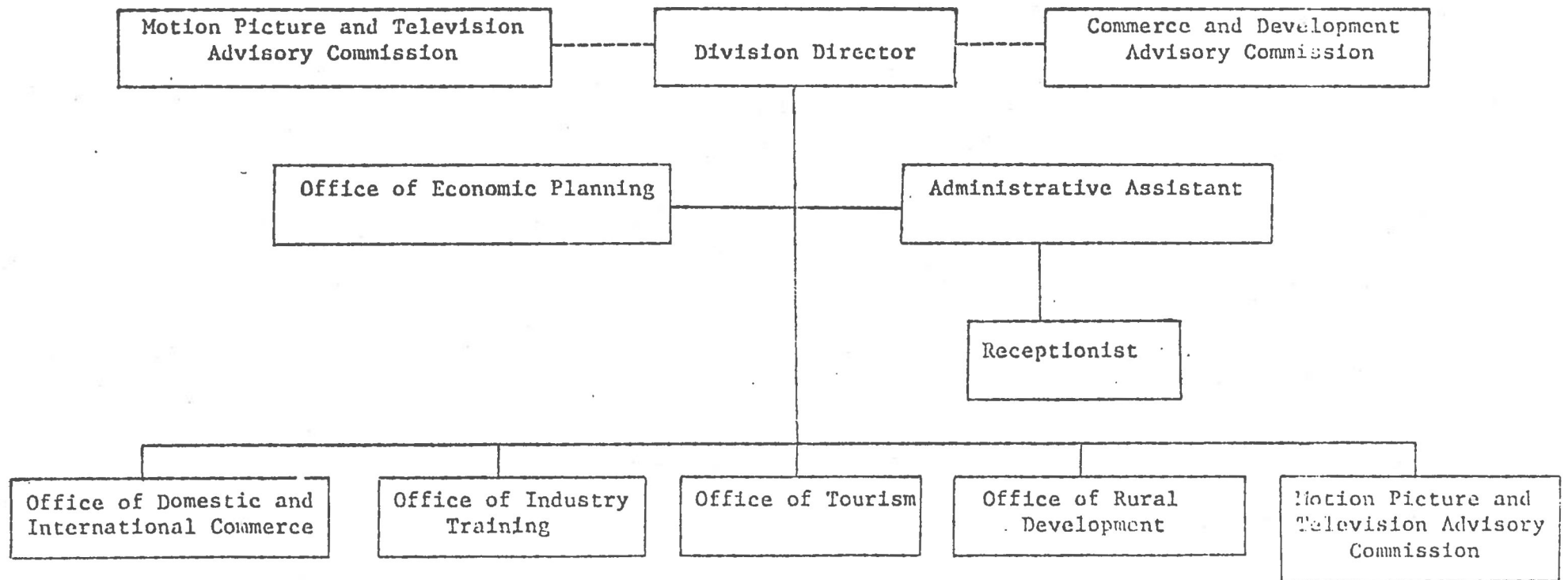
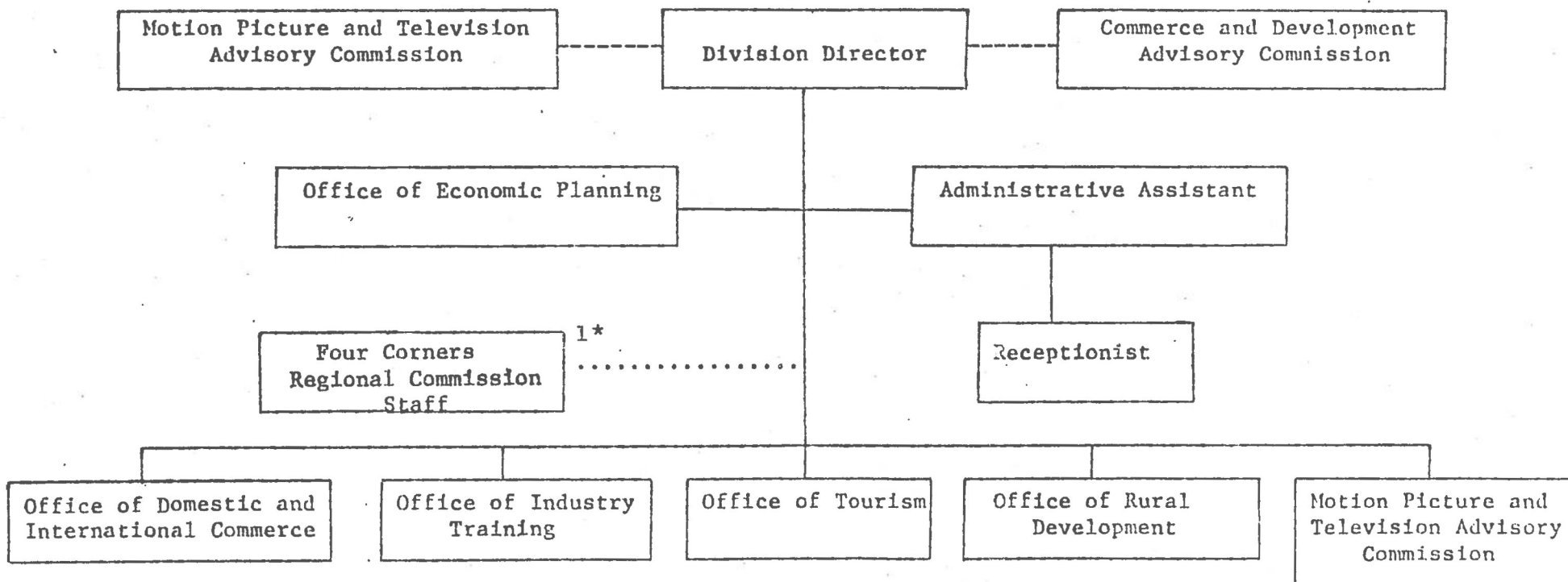
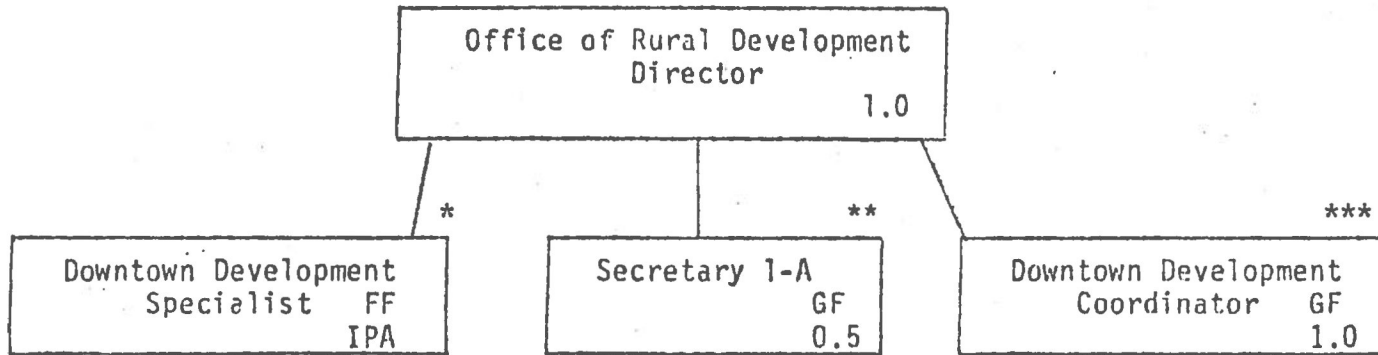


EXHIBIT B
 ORGANIZATIONAL CHART OF THE
 DIVISION OF COMMERCE AND DEVELOPMENT



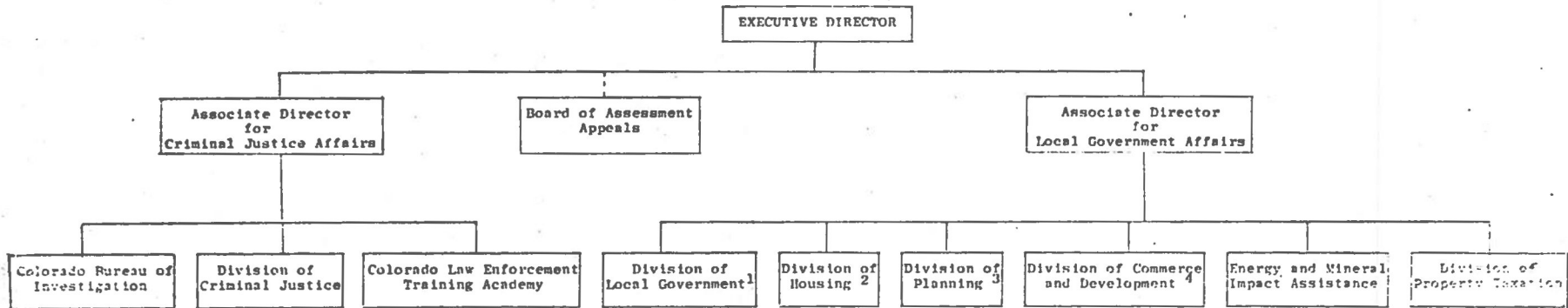
1* Attached effective May 11, 1979

EXHIBIT C
 PROPOSED ORGANIZATIONAL CHART OF THE
 OFFICE OF RURAL DEVELOPMENT



- * - Position to be filled by utilizing Federal Subsidy
- ** - Position presently assigned in Grand Junction.
To be placed in Office of Rural Development 1-1-80
- *** - Position to be filled utilizing monies resulting from 6-30-79 funding termination of FTE previously used for the Department of Local Affairs' Grand Junction Office

EXHIBIT D
 ORGANIZATIONAL CHART OF THE
 DEPARTMENT OF LOCAL AFFAIRS



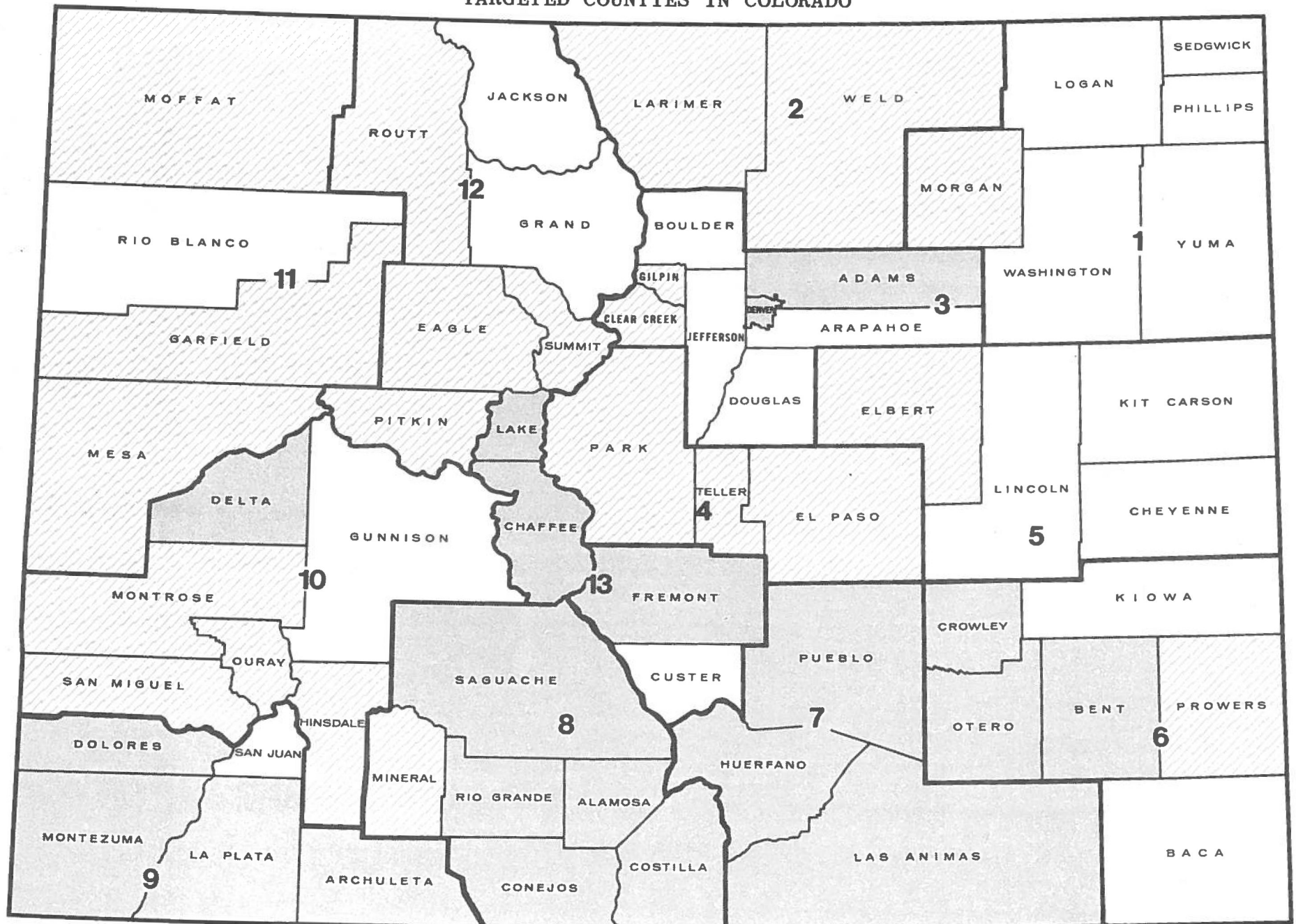
¹ Includes 1041 staff, State Economic Opportunity Office, Human Resources, and Paternship Program

² Includes Weatherization Program

³ Includes Land Use Commission staff and 208 staff

⁴ Includes Office of Rural Development and Four Corners Regional Commission staff

EXHIBIT E
 TARGETED COUNTIES IN COLORADO



Counties in severe distress

Counties in distress

Counties not in distress

EXHIBIT F
 DISTRIBUTION OF APPROVED FARMERS HOME ADMINISTRATION
 BUSINESS AND INDUSTRY LOANS IN COLORADO (10-1-78 THRU 9-30-79)

<u>Name</u>	<u>\$ Amount</u>	<u>Targeting Priority**</u>	<u>Location</u>	<u>County</u>	<u>Jobs Created</u>	<u>Cost Per Job Created \$</u>
Woodmoor County Club	750,000	(2)	Monument	El Paso	47	15,957
Mid-Continent Engineering	600,000	(3)	Broomfield	Boulder	70	8,571
Dwayne P. Herman	310,000	(2)	Estes Park	Larimer	12	25,833
Leadville Super 3	520,000	(1)	Leadville	Lake	18	28,888
I-25 Partnership	675,000	(2)	Monument	El Paso	47	14,362
Craig Super 8, Inc.	300,000	(2)	Craig	Moffat	11	27,273
Steamboat Super 8, Inc.	500,000	(2)	Steamboat Springs	Routt	21	23,810
Harold Nursing Home	80,000	(2)	Olathe	Montrose	37*	2,162
Linda E. Mandel	140,000	(2)	Telluride	San Miguel	12	11,667
Pine River Plaza	400,000	(1)	Bayfield	La Plata	18	22,222
H.F.E., Inc.	900,000	(2)	Fort Collins	Larimer	150	6,000
Zann Corporation	275,000	(1)	Durango	La Plata	18	15,278
Leslie E. & Janice E. Keenan	274,000	(1)	Las Animas	La Plata	10	27,400
Digi-Cloc, Inc.	115,000	(1)	Trinidad	Las Animas	14	8,214
M-K Corporation d/b/a The Mark	600,000	(2)	Vail	Eagle	220	2,727
Beaver Creek Associates, Inc.	14,000,000	(2)	Avon	Eagle	762	18,373
Charter Inn, Inc.	2,250,000	(1)	Alamosa	Alamosa	48	46,875
Highland Lumber Company, Inc.	75,000	(2)	Ault	Larimer	5	15,000
Harold Nursing Home	70,000	(2)	Olathe	Montrose	37*	1,892
Sundance Marketing Company	1,000,000	(2)	Greeley	Weld	30	33,333
Wisdom Manufacturing, Inc.	975,000	(3)	Merino	Logan	51	1,118
Silvey's, Inc.	325,000	(3)	Walsh	Baca	13	25,000
Industrial Co. of Steamboat	350,000	(2)	Steamboat Springs	Routt	500	700
B & B Lodging Corporation	125,000	(1)	Cortez	Montezuma	12	10,417
Jeff-Co	3,500,000	(2)	Glenwood Springs	Garfield	100	35,000
Bosarge, O'Brien, Wadsworth & Lewis	3,900,000	(2)	Frisco	Summit	103	37,864
Total	33,009,000				2,366	13,951

* Same Project

** Designation of targeting priority is: (1) Counties in severe distress; (2) Counties in distress; and (3) Counties not in distress.

EXHIBIT G
ANALYSIS OF THE BUDGET FOR THE OFFICE
OF RURAL DEVELOPMENT REPORTED TO THE JOINT
BUDGET COMMITTEE

<u>State Fiscal Period</u>	<u>Total Reported In Budget</u>	<u>Office of Rural Development</u>	<u>Four Corners Regional Commission</u>	<u>Grand Junction Office for Department of Local Affairs</u>	<u>E.D.A. (T.9) For Energy Impact Planning</u>	<u>Other</u>
1979-80*	\$ 226,386*	\$ 90,770*	\$135,616*	-?-	-	-
1978-79	200,754	30,636	117,427	\$52,691	-	-
1977-78	239,805	49,035	130,395	32,125 ***	-	\$25,250****
1976-77	287,655	91,373	136,848	-	\$ 59,434	-
1975-76	242,055	106,486**	77,033	-	58,536	-
1974-75	85,330	79,721	5,609	-	-	-
1973-74	<u>20,620</u>	<u>20,620</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL	<u>\$1,302,605</u>	<u>\$468,641</u>	<u>\$602,928</u>	<u>\$87,816</u>	<u>\$117,970</u>	<u>\$25,250</u>

* Represents budget request submitted to the Joint Budget Committee, fiscal year still in progress

** Included \$29,090 applicable to Federal E.D.A. (Section #302) monies used for preparing an economic plan for rural areas in Colorado

*** Since July, 1977, these 1.5 FTEs have not reported to the Office of Rural Development

**** Represents a portion of the salaries for the Associate Director for Criminal Justice Affairs and the Associate Director for Local Government Affairs

EXHIBIT H
 FOUR CORNERS REGIONAL COMMISSION EXPENSES
 INCLUDED IN THE BUDGET FOR THE
 OFFICE OF RURAL DEVELOPMENT

Expenses Applicable to Four Corners
 Participation Included in the Budget
 For the Office of Rural Development

<u>Fiscal Period</u>	<u>Total Budget \$ For the Office of Rural Development \$</u>	<u>Dues \$</u>	<u>Other** \$</u>	<u>Total \$</u>
1979-80*	226,386*	45,000*	90,616*	135,616*
1978-79	220,754	47,863	69,564	117,427
1977-78	239,805	44,732	85,664	130,395
1976-77	287,655	53,946	82,902	136,848
1975-76	242,055	34,385	42,648	77,033

* Represents budget request submitted to the Joint Budget Committee, fiscal year still in progress

** Includes staff costs

Report Page Ref.	No.	Recommendations	Check Appropriate Boxes (*Include Date) (**If checked-explain in comments)					
			See Comments	Requires Legislative Action**	Implemented*	To Be Implemented*	Deferred**	Rejected**
		DEPARTMENT OF LOCAL AFFAIRS OFFICE OF RURAL DEVELOPMENT						
11 & 12	1.	The Department of Local Affairs should develop and consistently use definitions of rural and urban on a department-wide basis.	X				X	
12 & 13	2.	According to the definitions developed in recommendation #1, there should be a reevaluation of the inclusion of downtown developers within the Office of Rural Development. If there is a statutory conflict, the department's emphasis placed on urban/downtown development should be funded from a more appropriate source. If the Department of Local Affairs believes that it can best serve both rural and urban needs by combining their responsibilities, then a statutory change should be sought from the legislature prior to implementing that organizational approach.	X				X	
14	3.	In our opinion, in order to most logically perform its statutorily required duty of coordinating the activities of the various divisions within the Department of Local Affairs, the Office of Rural Development should be placed in an organizational position at least equal to that of the division whose activities it is charged with coordinating.	X				X	

Report Page Ref.	No.	Recommendations	Check Appropriate Boxes					
			(*Include Date)	(**If checked-explain in comments)				
		DEPARTMENT OF LOCAL AFFAIRS OFFICE OF RURAL DEVELOPMENT	See Comments	Requires Legislative Action**	Implemented*	To Be Implemented*	Deferred**	Rejected**
17	4.	In order to address a prime concern of the statute, a targeting criterion should address the migration of people, youth in particular, from the rural to the urban areas.	X					X
17	5.	Presently, the area targeted for financial and technical assistance, defined as counties in distress and severe distress, represents 63% of the of the counties in the state. This targeted area, in our opinion, should be narrowed to realistically allow more significant results to be produced.			10/1/79			
18 & 19	6.	The targeting effort for distributing economic and technical resources is not synonymous with the planning efforts of the state. There needs to be either a more workable link between the two, or the Department of Local Affairs should adopt a policy that consistently utilizes either counties or regions.			10/1/79			
21 & 22	7.	The targeting strategy utilized for distributing monies intended for rural "areas" should exclude urban/metropolitan "areas" by definition and/or by creating targets that contain no urban/metropolitan areas.	X				X	

Report Page Ref.	No.	Recommendations	Check Appropriate Boxes (*Include Date) (**If checked-explain in comments)					
			See Comments	Requires Legislative Action**	Implemented*	To Be Implemented*	Deferred**	Rejected**
		DEPARTMENT OF LOCAL AFFAIRS OFFICE OF RURAL DEVELOPMENT						
22	8.	In order to make sure the available economic and technical resources have been funneled into the targeted areas, annual statistics should be prepared to show how the indigent areas (targeted areas) compare to the areas receiving the economic and technical resources.			7/1/80			
22	9.	An immediate analysis should be performed and any necessary changes should be incorporated into the procedures used to distribute the economic and technical resources into the rural targeted areas of the State.			10/1/79	ongoing		
27 & 23	10.	The 3.5 FTE positions, appropriated to the Office of Rural Development for the Four Corners Regional Commission staff by the Joint Budget Committee, but but abolished on May 10, 1979 to subsequently become appointed positions of the Governor's Office on May 11, 1979, should be reinstated by the personnel system of the State. According to Article XII, Section 13(2) of the State Constitution, these positions appear not properly classified as appointed positions of the Governor's Office.	X				X	
29	11.	The FTE positions and their related costs for the Four Corners Regional Commission staff, the funded FTEs for the Department of Local Affairs Office in Grand Junction, or any other			7/1/79			

Report Page Ref.	No.	Recommendations	Check Appropriate Boxes (*Include Date) (**If checked-explain in comments)					
			See Comments	Requires Legislative Action**	Imple- mented*	To Be Imple- mented*	Deferred **	Rejected **
		DEPARTMENT OF LOCAL AFFAIRS OFFICE OF RURAL DEVELOPMENT						
	11.	(Continued) should be either responsible to the Director of the Office of Rural Development, or the FTEs, budget dollars, and related programs should not be reported to the Joint Budget Committee for budget purposes as being in the Office of Rural Development.						
	12.	Future funding of the Office of Rural Development should not be made unless all of the following have been accomplished prior to Legislative passage of the 1980-81 Long Bill:						
		(1) development and consistent use, throughout the Department of Local Affairs, of definitions for rural and urban (see recommendation #1);	X See agency's response to recommendation 1.					
		(2) placement of the Office of Rural Development in an organizational position at least equal to the various divisions whose activities it is statutorily charged with coordinating (see recommendation #3);	X See agency's response to recommendation 2.					
		(3) include in the targeting strategy used by the Office of Rural Development, a criterion to address the migration of people from rural areas to urban areas (see recommendation #4);	X See agency's response to recommendation 3.					

Report Page Ref.	No.	Recommendations	Check Appropriate Boxes (*Include Date) (**If checked-explain in comments)					
			See Comments	Requires Legislative Action**	Imple- mented*	To Be Imple- mented*	Deferred **	Rejected **
		DEPARTMENT OF LOCAL AFFAIRS OFFICE OF RURAL DEVELOPMENT						
	12.	(Continued)						
		(4) performing an immediate analysis and adopting any necessary changes to provide adequate procedures to be utilized to distribute the economic and technical resources into the targeted areas (see recommendation #9); and	X					X
		(5) include in the budget for the Office of Rural Development, only those FTEs, dollars, and the programs that are controlled by the Director of the Office of Rural Development (see recommendation #11).			10/1/79			



Richard D. Lamm, Governor

Colorado Department of Local Affairs

Paula Herzmark, Executive Director

27 November 1979

Mr. Robert J. Scott, CPA
State Auditor
Room 601
1200 Lincoln Street
Denver, CO 80203

RECEIVED

NOV 27 1979

STATE AUDITOR'S OFFICE
DENVER, COLORADO

Dear Mr. Scott:

Attached to this letter is the Department's response to the pre-release copy of the Office of Rural Development's performance audit report. I want you and the committee to know that I feel the performance audit has been an objective treatment of the subject. Although I do not know the origin of the audit footnote, I strongly support the concept of periodic reviews of state programs beyond the regular budget review.

I look forward to the opportunity to meet with the Audit Committee. I hope you will support my request for adequate time to respond to your recommendations.

Sincerely,

Paula Herzmark
Executive Director

cc: Russ Caldwell

bh

Response From the Department of Local Affairs

ORGANIZATIONAL RELATIONSHIPS THAT NEED IMPROVEMENT

Recommendation #1

The Department of Local Affairs should develop and consistently use definitions of rural and urban on a department-wide basis.

AGENCY'S RESPONSE

This issue is not limited to the Department of Local Affairs. State statutes contain varied citations about urban or rural program emphasis. The Department believes a consistent definition should be developed for use throughout state government, but questions whether this should be legislatively or executively initiated. For purposes of the Department, there is not a clear distinction between urban and rural. There is a clear distinction of what comprises Colorado's urbanizing corridor--the "Front Range". This includes Larimer, Weld and El Paso counties and the Denver SMSA (Standard Metropolitan Statistical Area). In terms of the Office of Rural Development, I fully expect its resources and effort to be extended to those communities outside the Front Range. However, as you know, there are places with rural characteristics and rural identities within the Front Range. Conversely, there are urban areas, like Durango, Grand Junction and Pueblo outside the Front Range.

The Department has not made a precise identification of urban and rural places for other reasons as well. One is that communities do not like to be labeled. Urban versus rural is often a divisive technique when applied to communities.

Secondly, there are numerous U.S. Census and federal agency definitions for urban and rural. I cannot arbitrarily accept any one of them as fitting Colorado communities.

Unless the Committee specifically directs this Department to make precise urban and rural distinctions, I prefer to continue the use of "Front Range" as Colorado's urbanizing corridor. All counties outside the "Front Range" will be considered rural for Departmental purposes and programs.

Recommendation #2

According to the definitions in recommendation #1, there should be a re-evaluation of the inclusion of downtown developers within the Office of Rural Development. If there is a statutory conflict, the department's emphasis placed on urban downtown development should be funded from a more appropriate source. If the Department of Local Affairs believes that it can best serve both rural and urban needs by combining their responsibilities, then a statutory change should be sought from the legislature prior to implementing that organizational approach.

AGENCY'S RESPONSE

The Department feels the current four-fold effort of the Office of Rural Development as assigned to the Division of Commerce and Development represents an optimal use of extremely limited resources. The development and implementation of a strategy to deliver state and federal economic development resources to fifty-four incorporated municipalities (only six of which are in the Front Range) will significantly contribute to the development of rural communities. The proposed downtown development effort, slated to begin on December 1, 1979, is consistent with this strategy and designed to keep "mainstreet" Colorado economically viable. The Office of Rural Development, through contact with Alamosa, Gunnison, Cortez, Durango, Montrose, Delta, Trinidad, Sterling, Grand Junction and other communities has learned that existing local governments and business organizations are desirous of keeping their commercial areas economically viable by 1) capturing increased sales related to growth, 2) adding new business to existing commercial corridors and 3) directing growth into existing service areas. Many of these places are experiencing growth that could go out of town and adversely affect local businesses. Demand for downtown development and commercial revitalization assistance is sufficient to warrant this aid from the Office of Rural Development.

The involvement of urban local governments and urban business organizations in this effort is logical and necessary. Towns such as Greeley, Denver and Colorado Springs have developed local organizations, financial expertise and development techniques that should be shared with rural municipalities. The Department has proposed that this will take place through workshops and conferences designed to let all communities share knowledge and experiences related to downtown development.

This direct approach to an emerging rural development issue is far preferable for the use of our staff resource than special studies, legal analysis, etc.

Recommendation #3

In our opinion, in order to most logically perform its statutorily required duty of coordinating the activities of the various divisions within the Department, the Office of Rural Development should be placed in an organizational position at least equal to that of the divisions whose activities it is charged with coordinating.

AGENCY'S RESPONSE

The role of coordinating is in fact higher than division level. The Department's Executive Director is the only possible person who can serve the coordination functions outlined in the statutes. This role is separate from, but related to, the role of the Director of the Office of Rural Development. The office Director is responsible for the targeting strategy, handling regular assistance requests and the downtown initiative. The Department's Executive Director coordinates rural development through Departmental policies, inter-divisional program activities, and assignment of the Office of Rural Development staff to the most appropriate organizational unit. Rural Development is naturally aligned with Commerce and Development, the entity which business organizations and local government access to pursue developmental opportunities.

The Executive Director plays an external coordination role, representing rural development interests with other members of the Executive Branch by virtue of her policy coordination function on various entities. These include: 1) the Energy Coordinating Council, 2) the Impact Advisory Committee, 3) the Planning Coordinating Council and 4) the Human Services Policy Council.

It does not make good sense to attempt to justify 2.5 FTE's as a division. To place the staff in the Executive Director's Office would not enhance the Executive Director's assumption of the coordination role and would detract from the Office's access to the Department's economic developmental entity, the Division of Commerce and Development.

Lastly, the Department has received no constituent criticism of the present placement.

Recommendation #4

In order to address a prime concern of the statute, a targeting criterion should address the migration of people, youth in particular, from the rural to the urban areas.

AGENCY'S RESPONSE

The state has little ability to affect migration patterns from rural to urban areas or from frostbelt to sunbelt states because these patterns are driven by national and international economic forces and federal policies beyond state control. For example, the mechanization of agriculture has driven many young people from farm communities. The forces influencing this trend cannot be countered at the state level, much less through 2.5 FTEs. A legislative commitment to a growth and stabilization policy including a decentralization of state government could exert an influence on migration; however, the extent of the influence would be overshadowed by external forces. Secondly, migration data is based on a ten year census with the latest base year as 1970. The accuracy and timeliness of this data is not sufficient to identify areas needing priority state attention in 1979.

Recommendation #5

Presently, the area targeted for financial and technical assistance, defined as counties in distress and severe distress, represents 68% of the counties in the state. This targeted area, in our opinion, should be narrowed to realistically allow more significant results to be produced.

AGENCY'S RESPONSE

Counties are used as the starting point to identify conditions of distress. More precise targeting has occurred and is represented by the fifty-four incorporated municipalities designated as job creation and economic development targets. Only fifty-four of some three hundred municipalities are singled out for special attention. This represents 18% of Colorado's communities. Of the fifty-four identified only six are inside the Front Range. (See "targeting strategy" dated October 1, 1979, as provided to audit staff.)

Recommendation #6

The targeting effort for distributing economic and technical resources is not synonymous with the planning efforts of the state. There needs to be either a more workable link between the two, or the Department of Local Affairs should adopt a policy that consistently utilizes either counties or regions.

AGENCY'S RESPONSE

Both distress data and targets can be identified on a substate district basis. Since the Office of Rural Development effort is intended to stress implementation through targeting of resources, local identification is preferred. The Department does not have the financial resources to provide the councils of governments and planning commissions with staff to conduct their own targeting efforts. These organizations have been distributed the targeting strategy and conduct reviews of individual projects through the A-95 system.

Recommendation #7

The targeting strategy utilized for distributing monies intended for rural "areas" should exclude urban/metropolitan "areas" by definition and/or by creating targets that contain no urban/metropolitan areas.

AGENCY'S RESPONSE

The Department through the targeting strategy cannot order federal agencies to direct their financial resources (grants and loans) to the areas the Department believes are most in need. The targeting strategy and its economic and job creation targets seek to divert "discretionary" federal resources to the state targets. The Office of Rural Development reviews all economic development grants and loans to seek compliance with the state targets. It cannot prevent an agency such as the Economic Development Administration from funding some urban areas because this agency has an urban and rural program. The inclusion of six urban targets allows the Division of Commerce and Development to influence all federal economic development grants and loans to the state targets--urban (where applicable to the federal program) and rural (applicable to most of the federal economic development resources coming to Colorado). In fact, FmHA (Farmers Homes Administration) cannot spend money in any community over 25,000 in population. The exclusion of urban targets in the Division strategy would not divert more resources to rural targets.

Recommendation #8

In order to make sure the available economic and technical resources have been funneled into the targeted areas, annual statistics should be prepared to show how the indigent areas (targeted areas) compare to the areas receiving the economic and technical resources.

AGENCY'S RESPONSE

The Department concurs in this recommendation and feels it can be implemented immediately. Federal grants and loans awarded are now formally reported to the Office of State Planning and Budgeting. This office can provide the statistics to show the impact of the rural development effort.

Recommendation #9

An immediate analysis should be performed and any necessary changes should be incorporated into the procedures used to distribute the economic and technical resources into the rural targeted areas of the State.

AGENCY'S RESPONSE

The Office of Rural Development and Division of Commerce and Development make periodic reviews of changes in federal laws and state and federal rules applied to economic development programs. The staff does make formal comments and occasionally meets with agency staffs to improve procedures used to distribute economic and technical resources to targeted areas.

Recommendation #10

The 3.5 FTE positions, appropriated to the Office of Rural Development for the Four Corners Regional Commission staff by the Joint Budget Committee, but abolished on May 10, 1979, to subsequently become appointed positions of the Governor's Office on May 11, 1979, should be reinstated by the personnel system of the State. According to Article XII, Section 13 (2) of the State Constitution, these positions appear not properly classified as appointed positions of the Governor's Office.

AGENCY'S RESPONSE

The Department does not feel this recommendation should be covered in the scope of the performance audit of the Office of Rural Development. The 3.5 FTE associated with the Four Corners program existed before the legislature created the Office of Rural Development. These positions were budgeted in the rural development narrative of the Division of Commerce and Development for organizational convenience.

Recommendation #11

The FTE positions and their related costs for the Four Corners Regional Commission staff, the funded FTEs for the Department of Local Affairs Office in Grand Junction, or any others should be either responsible to the Director of the Office of Rural Development, or the FTEs, budget dollars, and related programs should not be reported to the Joint Budget Committee for budget purposes as being in the Office of Rural Development.

AGENCY'S RESPONSE

The Department concurs in this recommendation and will implement it.

