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UNITED STATES GENERAL ACCOUNTING OFFICE  
WASHINGTON, D.C. 20548

HUMAN RESOURCES  
DIVISION

April 14, 1982

The Honorable Ralph Olmo  
Acting Deputy Under Secretary for Management  
Department of Education



Dear Mr. Olmo:

Subject: Use of Program Income by Evaluation,  
Dissemination, and Assessment Centers  
Supported by OBEMLA (HRD-82-63)

The General Accounting Office has completed a review of the use of income accrued by three Evaluation, Dissemination, and Assessment Centers established through Office of Education, now Department of Education (ED), grants. The purpose of these Centers is to assess, evaluate, and disseminate instructional materials for use in bilingual education. The Office of Bilingual Education and Minority Languages Affairs (OBEMLA), which operates programs directed to providing among other matters equal education opportunity for limited-English-proficient children and adults, is the program office for these Centers. ED's Assistance Management and Procurement Service (AMPS), Office of Management, provides administrative and financial direction and coordination to ED's grantees and contractors. AMPS is the grants administration office for the Centers.

The objectives of our review were (1) to determine whether Centers used program income--income accruing to a grantee during the period of grant support--according to Federal requirements, and (2) to assess whether ED adequately monitored program income. We reviewed pertinent records and interviewed officials at OBEMLA, AMPS, and the three Centers in Los Angeles, California; Cambridge, Massachusetts; and Austin, Texas. At each Center we reviewed the accounting for and use of program income for a 1-year period; that is, the 1980-81 grant year. Our review was made in accordance with our Office's current Standards for Audit of Governmental Organizations, Programs, Activities, and Functions.

BACKGROUND

Section 742(e) of the Bilingual Education Act requires ED to develop and disseminate instructional materials and equipment suitable for use in bilingual education programs. OBEMLA established the center concept to carry out this responsibility. While OBEMLA had funded special projects to assess and disseminate bilingual materials as early as 1970, the center concept took its present form in 1975 when ED funded three Centers.

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To become a Center, eligible institutions must apply for an ED grant and compete with other applicants from the same geographic service area--Eastern, Central, or Western United States. As a part of the application process, each applicant submits an operating budget that includes publishing costs for applicable bilingual materials. Budget items are subject to negotiation prior to grant award. After evaluating the merits of all applications, ED selects the Center grantee for each of the three service areas. For the 1980-1981 grant year, ED awarded the following grants: \$830,656 to the Cambridge Center; \$780,480 to the Austin Center; and \$755,000 to the Los Angeles Center.

The Centers receive program income primarily by selling published materials. This income partially recovers costs covered for the most part by the grant. In the 1980-81 grant year, the Austin Center showed program income of more than \$175,000, and a \$490,168 year-end program income balance; the Cambridge Center had program income of more than \$60,000 and a \$92,184 balance; and the Los Angeles Center had program income of more than \$30,000 and a \$91,078 fund balance. In the 6 years from 1975-76 to 1980-81, the Austin Center realized program income totaling over \$1.4 million. We did not develop similar information for the other two Centers.

#### PROBLEMS RELATED TO THE USE OF PROGRAM INCOME

ED's monitoring of program income was lax. Centers have accumulated and retained large year-end balances of program income funds. ED has not issued adequate rules or directives governing such funds. Centers have used program income to purchase equipment and there is serious question whether ED can transfer such equipment to succeeding grantees as can be done with equipment purchased with grant funds. Centers have also spent program income for purposes which may be inconsistent with the intent of the grant.

#### Better control over program income fund balances needed

Office of Management and Budget Circular A-110 (OMB A-110), issued in July 1976, provides direction to Federal agencies in administering grants to institutions of higher education. The circular provides that program income can be added to grant funds, used as matching funds, or be deducted from the grant. While OMB A-110 requires grantees to return all unobligated grant funds when the grant is closed out, it does not address the disposition of unobligated program income balances at the end of the grant period.

Regarding program income, ED regulation on Administration of Grants (34 C.F.R.74) requires that the grantee retain such income and use it for current costs, unless the granting agency authorizes deferral to a later period. The grantee may use program income as "matching" funds or for "additional costs" including the purchase of equipment needed for the project, provided such use is permitted by the terms of the grant. However, we noted that the Center grants did not discuss how grantees were to use or account for program income. Therefore, in our opinion, the grantees should have used such income for current costs only.

The regulations require grantees to immediately refund unobligated grant funds at the time the grant is closed out (or otherwise dispose of the grant funds according to ED instructions). However, like OMB A-110, the regulations do not address the disposition of unobligated program income funds. In this regard, we found that the Centers have accumulated and retained large year-end balances of program income. 1/ The Los Angeles Center records showed for the 1980-1981 grant year a \$91,078 year-end program income fund balance. Likewise, the Cambridge Center records showed a \$92,184 year-end balance and the Austin Center records showed a \$490,168 year-end balance. When ED did not fund the Austin Center for the 1981-82 grant year, the Center retained its program income fund balance of nearly \$500,000.

The AMPS grants officer told us that she had verbally informed the Centers that they could retain program income funds from one grant period to the next. She also stated that when the grant is closed out and the Center is not awarded a new grant, it could retain the program income fund balance. She stated that in such instances Centers must use these funds first to continue or further the project initially funded and second for anything that furthers bilingual education. AMPS officials said, however, that they had been unaware that the grantees had earned and retained such large amounts of program income.

The regulations require grantees to submit at least annually a financial status report that includes a reporting of program income realized. However, we noted that Centers did not include the required program income data on the financial status reports submitted to ED. The AMPS grants officer told us that the Centers were aware of this requirement, but, according to her, did not want to comply because they would have been required to deduct

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1/ Depending upon the accounting system used by individual Centers, the year-end balances of program income funds in the Centers' records may not be entirely unobligated.

program income from the grant. None of the financial status reports on file at AMPS included program income data. Only one Center could show us reports which included program income--on the other hand, the AMPS grants officer could find no record of receiving the reports.

AMPS officials advised us that had the Centers reported program income data, ED could have considered applying unused program income balances against subsequent years' grants. The AMPS officials believe that program regulations will allow them to initiate recovery actions where warranted. They stated that they will also attempt to determine whether other ED grants have program income and whether they are similarly affected.

Guidance needed on disposition of equipment purchased with program income

Centers have used program income funds to purchase expensive equipment but ED may be precluded from transferring the equipment to new grantees as can be done with equipment purchased with grant funds. OMB A-110 allows the sponsoring agency to transfer ownership of items costing \$1,000 or more that grantees purchase with project (grant) funds. However, the circular does not discuss the ownership of such items purchased specifically with program income funds. Likewise, 34 C.F.R.74 provides that ED can transfer grant-purchased equipment costing \$1,000 or more to another party, such as when another grantee needs equipment. The regulations do not, however, address the disposition of similar items that grantees purchase with program income funds. Therefore, it appears questionable as to whether the Government can control the disposition of equipment that grantees purchased with program income.

During the 1980-81 grant year, the Cambridge Center used program income funds to purchase a computer system costing about \$36,000; a copier costing \$2,000; and a terminal costing \$1,060. The Austin Center used program income funds to purchase a vehicle for \$9,583 and had in a previous year purchased a word processor. While the Los Angeles Center had not purchased equipment costing \$1,000 or more during the 1980-81 grant year, Center officials told us that they had used program income funds in the past to purchase a word processing unit, and had leased, with provision to purchase, a mailing machine, using program income.

While the regulations provide that ED can transfer equipment costing \$1,000 or more if purchased with grant funds, the AMPS grants officer told us that she believes the regulations do not prevent grantees from owning equipment purchased with program income. Center officials informed us that they believe they can acquire permanent title to equipment purchased with program income funds.

We discussed this matter with ED's Office of Management officials. They agreed that the regulations do not adequately address the ownership of equipment purchased with program income funds.

Questionable expenditures  
of program income funds

According to the AMPS grants officer, she was unable to include special provisions concerning program income in the grants, because the regulations contain no such restrictions. She said that she had given verbal, rather than written, guidance to the Centers and had instructed them to use program income for "legitimate expenditures" under the grants. These would include such items as publishing expenses, as the Centers are usually short of printing funds. While legitimate expenditures were not clearly defined, they would seem to be only expenditures that further the purposes of the grant.

At each of the three Centers, we examined a sample of program income funds expenditures from the 1980-81 grant year. We also reviewed prior year expenses where they were related to the 1980-81 expenditures. We examined whether these expenditures furthered the purposes of the grant. Most of the expenditures appeared to be appropriate and supported the purposes of the grant. However, some were questionable and either did not appear to further the purposes of the grant or conflicted with the grants officer's instructions.

In 1980, for example, when the Austin Center found that it might lose its grant to other applicants and that questions concerning application procedures were involved, it retained a law firm. Subsequently, the Center continued as a grantee and paid the law firm's charges of over \$1,300 out of program income funds. After the Cambridge Center was restricted to an 8-percent indirect cost rate, it too retained a law firm and eventually succeeded in having the Center's indirect cost rate increased to 16 percent. Although it had used program income funds to pay the law firm's first bill of \$600, Center officials told us that it did not use such funds to pay the remaining legal costs.

Contrary to the grants officer's instructions, Centers spent program income funds sponsoring bilingual education management institutes and other conferences. The AMPS grants officer stated that she had told Center officials not to use program income for sponsoring management institutes since the institutes, in her opinion, did not meet program purposes. Centers used program income funds to sponsor management institutes because registration and other related fees did not cover conference costs. For 1980-81 the Cambridge Center showed a \$1,649 net loss from its conferences and covered this loss with program income funds. Austin Center officials told us that in general the conferences

lost money and one of their 1980-81 management institutes had a net loss of about \$6,000. They also stated that program income funds covered such losses. At the time of our review, the Los Angeles Center had not closed the books on its 1981 management institute. However, Center officials estimated that it will have a net loss of about \$1,800. They also intended to cover their losses out of the program income fund.

Center officials told us that OBEMLA officials asked them to sponsor the management institutes. The AMPS grants officer, however, expressed surprise that the Centers had used program income funds to sponsor the institutes, in that Centers' grants state that the grants officer (and not the OBEMLA project officer) must approve and authorize any changes in the project which affect the grant price, terms, conditions, or work scope.

Other questionable expenditures include:

- The Austin Center spent more than \$80,000 in program income funds to publish a set of books entitled "Through White Men's Eyes--A Contribution to Navajo History." It is a six-volume set priced at \$225 a set. Center officials told us that they normally used the Government Printing Office for publishing its materials but the Office would not accept an order for the unusually high level of quality specified for these books. Therefore, the Center used a commercial publisher instead. Although Centers are funded to "disseminate instructional materials and equipment suitable for use in bilingual education programs," the Center had not sold a set of these books to any school district. Center officials expected the market for these books would be libraries and collectors. They stated that as of November 1981, only 50 sets had been sold, leaving 450 sets in inventory. Some Center officials fear the publication may turn out to be an \$80,000 "albatross." They told us that they had not wanted to undertake this project but agreed to do so at the request of OBEMLA officials.
- The Los Angeles Center spent about \$3,700 to have programs and posters printed for bilingual education conferences that other organizations sponsored. Center officials told us that traditionally they have provided free programs and posters to various bilingual education conferences. However, the Center has discontinued this practice. Similarly, the Austin Center spent more than \$2,500 of program income funds to purchase gift portfolios for the Center's management institute participants. The vinyl portfolios cost about \$10 each. Center officials believed that such gifts were a tradition of the title VII bilingual education conferences.

--Because the Los Angeles Center needed a representative for their materials at eastern conferences, it used more than \$1,300 in program income funds to hire an individual who already was a full-time employee of the Cambridge Center. The Cambridge Center was aware of this arrangement. The Los Angeles Center paid the Cambridge Center employee a consultant's fee (\$333 a month) to represent its materials while attending conferences for the Cambridge Center.

We discussed the above expenditures with AMPS officials, including the grants officers. They indicated that these expenditures seemed to be inappropriate and said they would review them and attempt to determine what corrective actions they could take.

In our opinion, ED contributed to these questionable expenditures of program income funds because it did not

- provide the Centers with clear instructions on appropriate uses of program income;
- require application/budget data regarding proposed uses (as a part of its review and approval process); and
- monitor the Centers' use of such funds through periodic site visits and expenditure reviews.

Center officials told us that ED had never given them firm guidance or directives on what they were to do with program income funds although they would have welcomed clearly written directives to help them use program income properly. According to one Center official, his Center's policy was to use grant funds for allowable costs and use program income funds for project-related expenditures that might be questionable if funded with Federal grants.

In reviewing grantee applications and budgets, we found that the Centers had not included program income data in the submitted budgets that would have given OBEMLA and AMPS an indication of the expected amounts involved and the uses to be made of such income. Program income has been an important part of the Center's budgets. In 1980-81, it made up as much as 20 percent of one Center's total budget. Without knowledge of such expenditures, ED cannot perform a comprehensive evaluation of applicants' grant proposals.

Concerning periodic site visits to monitor use of program income funds, OBEMLA officials said that, while they have tried to monitor the Centers, they have not had a regular monitoring program because they lacked staff and funds to undertake such work. Center officials told us that OBEMLA officials had visited them infrequently and had not provided any written reports concerning the findings of the visit.

CONCLUSIONS AND RECOMMENDATIONS

In view of the substantial amounts of program income funds, and the confusion that exists among grantees and ED officials regarding the appropriate uses and disposition of these funds, we recommend that ED

- determine the total program income balances that the Centers should have returned to ED, and require Centers to return such balances and in the future require the prompt return of any unobligated program income when completing a grant period, or offset such balances against succeeding grants;
- enforce administrative requirements that applicants include program income data in the financial status reports that they submit to ED;
- require applicants to include in the budgets that accompany their applications the total program income they expect to receive and how they plan to use the income;
- establish a Federal prerogative similar to that which exists for equipment purchased with grant funds. This would allow ED to transfer equipment purchased with program income funds to a third party upon termination of the grant or when no longer used for the grant purpose; and
- issue directives to clarify the appropriate use of program income funds and monitor the uses made of such funds.

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We would appreciate ED's advice regarding actions taken or planned on our recommendations. Copies of this letter are being sent to interested congressional committees and subcommittees, and, to the Director, Office of Management and Budget.

We will be glad to meet with you or your representatives to further discuss this matter.

Sincerely yours,

  
Morton E. Henig  
Senior Associate Director