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Administration Of Federal
Programs At Kittrell College
Kittrell, North Carolina B-164031(1)

Office of Education .

Department of Health, Education, and Welfare

Department of Housing and Urban Development

***BY THE COMPTROLLER GENERAL
OF THE UNITED STATES***

~~702096~~ / 095842

JUNE 7, 1974



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

B-164031(1)

G The Honorable Jesse Helms
United States Senate

R Dear Senator Helms:

This is our report on our review of the administration of Federal programs at Kittrell College, Kittrell, North Carolina. We made our review in response to your May 31, 1973, request.

At the time of our review, the college had received Federal funds from the Office of Education of the Department of Health, Education, and Welfare and the Department of Housing and Urban Development. Officials from both these agencies and from the college were given an opportunity to review the contents of this report, and their comments have been included in the report.

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As instructed by your office we will not distribute this report further unless you agree or publicly announce its contents.

Sincerely yours,

Comptroller General
of the United States

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Housing Administration, Department of Housing
and Urban Development

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ABBREVIATIONS

GAO General Accounting Office
HEW Department of Health, Education, and Welfare
HUD Department of Housing and Urban Development
OE Office of Education

COMPTROLLER GENERAL'S REPORT
TO THE HONORABLE JESSE HELMS
UNITED STATES SENATE

ADMINISTRATION OF FEDERAL PROGRAMS
AT KITTRELL COLLEGE, KITTRELL,
NORTH CAROLINA
Office of Education
Department of Health, Education,
and Welfare
Department of Housing and
Urban Development
B-164031(1)

D I G E S T

WHY THE REVIEW WAS MADE

At the request of Senator Helms, GAO reviewed expenditures of Federal funds by Kittrell College in North Carolina. The Senator was concerned about the possible misuse of Federal funds granted to the college. (See app. I.)

Because most of the college's financial records were destroyed when its business office caught fire in March 1973, GAO's review of the college's financial management policies, procedures, and practices for Federal programs was restricted to such tests as were possible with the salvaged records. (See p. 3.)

FINDINGS AND CONCLUSIONS

Kittrell College used questionable financial management practices to control and account for Federal grant and loan funds. As a result the college had unpaid bills relating to federally funded programs totaling at least \$117,000, as of June 30, 1973, and had virtually no funds with which to pay these bills.

In addition, the college was liable for over \$87,000 in unpaid Federal and State payroll taxes, about a third of which related to employees who were working in federally funded programs. (See p. 5.)

Much of this might not have occurred if the college had followed its established accounting system. (See p. 18.)

The questionable financial management practices included

- commingling Federal and college funds without maintaining subsidiary records in the accounting system to control Federal funds (see p. 5),
- not setting aside revenues received for federally funded projects to repay loans as required by the Department of Health, Education, and Welfare (HEW) and Department of Housing and Urban Development (HUD) loan agreements (see p. 7),
- not recording all financial transactions in the accounting records (see p. 8),
- not providing required matching funds for Federal programs (see p. 9), and
- using Federal funds for other than intended purposes. (See p. 10.)

These practices and the limited availability of records made it difficult to determine the extent to which Federal funds were used for their intended purposes. (See p. 10.)

GAO believes that the college followed these practices because it did not have sufficient funds from non-Federal sources, such as student tuition, to pay for its normal operating expenses and to meet matching requirements for certain Federal programs. (See p. 18.)

For the fiscal year ended June 30, 1973, the college was awarded 10 grants totaling about \$1 million by HEW's Office of Education (OE) for higher education programs. 55

From July 1, 1968, through June 30, 1973, the college also received \$1.4 million in college housing loans from HUD and about \$600,000 in construction loans and grants from OE. (See p. 3.)

Program monitoring by OE and HUD needs improvement

OE and HUD generally did not require certified financial reports from applicants for grant and loan funds under the programs reviewed. In addition, budgetary and financial data in the grant and loan applications were not required to be verified. Postaward monitoring had been limited, audits were not systematically conducted, and HUD and OE guidelines for site visits did

not provide for review of the college's financial management and accounting practices.

Had HUD and OE provided more extensive preaward evaluations and postaward monitoring of grant and loan programs, the questionable management practices probably would have been detected earlier and corrective actions could have been taken. (See p. 15.)

RECOMMENDATIONS

The Secretaries of HEW and HUD should: 22

- Require the college to restore the balance of the Federal funds that were not used for intended purposes. (See p. 18.) 23
- Improve their preaward evaluation and postaward monitoring procedures to provide checks on the college's financial management capabilities and accounting controls over Federal funds. (See p. 19.)

AGENCY ACTIONS AND UNRESOLVED ISSUES

HEW and HUD concurred with GAO's recommendations and stated that they would take actions to implement them. (See p. 19.)

CHAPTER 1

INTRODUCTION

In response to a May 31, 1973, request from Senator Jesse Helms (see app. I), we reviewed the expenditure of Federal funds at Kittrell College, Kittrell, North Carolina. The Senator was concerned about the possible misuse of Federal funds granted to the college.

Kittrell College, founded in 1886, is a church-sponsored, 2-year institution in northeastern North Carolina. The college serves primarily economically and educationally deprived students. The enrollment as of September 1973 was about 320--a drop of about 370 from the previous year.

During fiscal year 1973 the college received about \$1 million in Federal higher education funds from the Office of Education (OE), Department of Health, Education, and Welfare (HEW). The programs funded included eight authorized under the Higher Education Act of 1965, as amended (20 U.S.C. 1001 et seq.); one authorized under the Education Professions Development Act (20 U.S.C. 1091 et seq.); and one called the National Right to Read program which derives its authority from a number of different acts. (See app. II.)

In addition, the college received about \$2 million in construction loans and grants from July 1968 through June 1973 for a student union building, two dormitories, a library, and an academic building. The Department of Housing and Urban Development (HUD) provided \$1.4 million under title IV of the Housing Act of 1950, as amended (12 U.S.C. 1749), and OE provided \$600,000 under the Higher Education Facilities Act of 1963, as amended (20 U.S.C. 701).

SCOPE OF REVIEW

Our review encompassed the college's financial management policies and procedures for controlling and accounting for Federal funds. Because most of the accounting records, invoices, checks, and other documents were destroyed when the college's business office caught fire in March 1973, we restricted our review of the propriety of expenditures for Federal programs to such tests as were possible with the salvaged records.

We reviewed the fiscal year 1973 cash receipts and disbursements journals for the college's general operating fund and a fund maintained for higher education moneys received from OE, but supporting records were not available. We also reviewed transactions shown in the construction fund cash receipts and disbursements journals for fiscal year 1973 plus bank statements, canceled checks, and most paid invoices from inception of the construction program in June 1968 through August 1973. In addition, we examined documentation for several transactions that were not recorded in the college's financial records.

CHAPTER 2

NEED TO IMPROVE COLLEGE'S FINANCIAL MANAGEMENT

OF FEDERAL FUNDS

As of June 30, 1973, the college had unpaid bills relating to federally funded programs totaling at least \$117,000 and had virtually no funds with which to pay the bills. In addition, the college was liable for over \$87,000 in unpaid Federal and State payroll taxes, about a third of which related to employees who were working in federally funded programs. The college's financial difficulty resulted primarily from questionable financial management practices in controlling and accounting for Federal grant and loan funds.

The questionable practices included

- commingling Federal and college funds without maintaining subsidiary records in the accounting system to control Federal funds,
- not setting aside revenues received for federally funded projects to repay loans as required by the HEW and HUD loan agreements,
- not recording all financial transactions in the accounting records,
- not providing required matching funds for Federal programs, and
- using Federal funds for other than intended purposes.

These practices and the limited availability of financial records made it difficult for us to determine the extent to which Federal funds were used for the purposes intended.

SUBSIDIARY RECORDS NOT MAINTAINED BY PROGRAM

Although the college had an established accounting system--made up of a chart of accounts and applicable procedures--the system had not been fully implemented to

provide for control and accountability of Federal funds. HUD and OE regulations require grantees to provide fiscal control and fund accounting procedures necessary to insure proper disbursement of and accounting for Federal program funds.

OE higher education funds

The college's chart of accounts provided for using subsidiary ledgers, as needed, for Federal grant reporting, but the college did not use such ledgers for any programs. Federal moneys for OE's higher education programs were initially recorded in one account. Moneys for the three student financial aid programs were subsequently recorded in separate accounts, and those relating to the remaining programs were transferred as needed to the college's general operating fund. The general fund was also used to record moneys from other sources, such as State aid and church contributions. Since subsidiary ledgers were not used, the identity of Federal program moneys was lost once commingled in the general operating fund.

Failure to maintain subsidiary records may have also contributed to erroneous reporting. In reviewing expenses that we could attribute to four of the higher education programs (Upward Bound, Special Services, College Library Resources, and Strengthening Developing Institutions), the amount of fiscal year 1973 expenses shown in the college's records and those reported to OE differed, as shown below.

<u>Program</u>	<u>Total expenses--fiscal year 1973</u>		
	<u>Shown in records</u>	<u>Reported</u>	<u>Difference</u>
Upward Bound	\$ 73,701.05	\$ 65,624.00	\$ 8,077.05
Special Services	47,668.22	33,891.00	13,777.22
College Library Resources	0	8,594.00	- 8,594.00
Strengthening Developing Institutions	<u>367,666.59</u>	<u>370,593.23</u>	<u>- 2,926.64</u>
	<u>\$489,035.86</u>	<u>\$478,702.23</u>	<u>\$10,333.63</u>

OE and HUD construction funds

OE and HUD construction loan agreements require that adequate and separate accounting and fiscal records be maintained for all moneys provided to pay the cost of the proposed construction. The agreements also require that moneys deposited in the construction account be used only for purposes specified in the project cost estimates approved by the Government.

Federal moneys and college matching funds for all five construction projects were commingled in one account, established in 1968, and no subsidiary ledgers were established to insure that funds for a specific project were used on that project.

LOAN REPAYMENT NOT ASSURED

OE and HUD loan agreements require that (1) security for each loan include a pledge of project revenues and (2) separate revenue, bond retirement, and maintenance accounts be established to insure the availability of the pledged revenues. Revenues can come from rentals, charges, or special fees. For example, revenues from a federally financed dormitory project would come from the room rent charged to the students and other fees charged for the dormitory operations.

Although the college's chart of accounts provided the framework for establishing subsidiary ledgers by project for construction and related revenue, interest, bond retirement, and maintenance accounts, the college had not used the ledgers.

The college used revenues from completed construction projects to pay general operating expenses instead of placing them in the proper accounts. At the completion of our fieldwork in September 1973, the past due interest and principal on the completed projects were as follows.

<u>Project</u>	<u>Date due</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
Library	7-1-73	\$ 1,665	\$ 3,000	\$ 4,665
Student union	7-1-73	7,650	0	7,650
Dormitory #1	1-1-72	6,825	0	6,825
	<u>5-1-73</u>	<u>6,825</u>	<u>0</u>	<u>6,825</u>
Total		<u>\$22,965</u>	<u>\$ 3,000</u>	<u>\$25,965</u>

The president of the college advised us in January 1974 that payments made to HUD since the close of our fieldwork included the past due interest payment on the student union and one past due payment on dormitory #1.

FINANCIAL TRANSACTIONS NOT SHOWN
IN ACCOUNTING RECORDS

Several financial transactions that the college either did not record or only partially recorded in the accounting records were directly or indirectly related to Federal programs.

Payment of Federal payroll taxes withheld

In June 1972 the college's president used \$9,874 of personal funds to pay Federal payroll taxes which had been withheld from employee's salaries but had not been remitted to the Internal Revenue Service. These taxes included amounts withheld from salaries of employees who were working in several federally funded programs. The payment was in effect a loan to the college.

The college did not make appropriate entries in the accounting records to reflect the receipt of cash and liability for repayment of the loan or the payment of cash to the Internal Revenue Service and reduction of the liability for Federal payroll taxes payable. At the time the taxes were paid, the college gave the president a check dated July 28, 1972, and entered the payment in the accounting records.

The net effect of these transactions was to understate the college's liability for notes payable and to overstate its liability for Federal payroll taxes payable. The cash account balance was not affected because the failures to record the receipt and payment were offsetting.

Repayment of loan principal

In May 1972 the college paid \$10,000 of the principal due on its student union building project, which had been financed with a HUD loan. The \$10,000 was received from the church which sponsored the college. Neither the receipt of the money nor the principal payment were entered in the accounting records; the net effect was to understate revenues received from the church and to overstate the college's remaining liability to HUD.

Transactions relating to matching funds

On July 1, 1970, the college borrowed \$20,000 from a local bank to use as matching funds on a HUD construction loan project. The college did not record the money in the cash account or record the liability and repayment in the notes payable account. These transactions are discussed in detail on page 10.

Transactions relating to selected savings accounts

The college had not recorded financial transactions relating to four of its savings accounts since June 1, 1972. The person acting as business manager at the college from July 1971 to July 1972 said that each of the four accounts was drawn down to \$100 before June 1, 1972, but she could not recall why this was done. Later deposits and withdrawals relating to the four accounts were not recorded in the college's financial records. As of May 31, 1973, the total balance for the four accounts, as shown by the bank deposit books, was \$7,709.54 as compared with the \$400 shown in the accounting records.

MATCHING FUNDS NOT PROVIDED BY COLLEGE

HUD regulations require that, before submitting a request for construction loan funds, the borrower present satisfactory evidence that it has deposited in a construction account for the project the difference between the amount of the loan and the estimated cost of the project (matching funds). Similarly, OE's construction loan agreement requires assurance that the applicant has on hand, or is assured of obtaining, sufficient funds to meet the non-Federal matching funds portion of the cost of constructing the facilities.

Although the college certified to HUD and OE that matching funds were available, it had not provided the required funds on two projects, as follows.

<u>Project</u>	Estimated project <u>cost</u>	Federal <u>share</u>	College share		
			<u>Agreed</u> <u>to</u>	<u>Contrib-</u> <u>uted</u>	<u>Unmatched</u> <u>amount</u>
Student union (HUD)--CH-NC- 1708	\$540,000	\$520,000	\$ 20,000	\$ 0	\$20,000
Academic build- ing (OE)--NC- 4400611-0	524,691	390,000	134,691	72,984	61,707

In the loan application for student union building funds, the college certified to HUD in June 1970 that the required \$20,000 in matching funds had been deposited in the construction account. However, the college had borrowed the \$20,000 from a local bank and deposited it in a special bank account rather than in the construction account. After 24 days the special account was closed, the \$20,000 was repaid to the bank, and \$115 in interest on the loan was paid from the construction account. As of June 30, 1973, the \$20,000 matching funds had not been provided, contrary to what the college had certified to HUD.

The college gave written assurance to OE in November 1971 that its commitment of \$134,691 for matching funds for the academic building had been met with \$50,000 of in-kind contributions (property) and \$88,000 cash in the bank. However, college records as of June 30, 1973, showed that only \$72,984 (\$42,984 in-kind and \$30,000 cash deposited in the construction account) in matching requirements had been met, leaving an unmet commitment of \$61,707.

FEDERAL FUNDS USED FOR
OTHER THAN INTENDED PURPOSES

Legislation authorizing the various federally funded programs at the college specifies the purposes for which

the funds can be used. Contrary to OE and HUD regulations, the college used at least \$177,000 in Federal funds to pay its general operating expenses during the period July 1968 through June 1973. College officials apparently recognized the need to pay back most of the funds because they had recorded the transactions in special accounts showing that the amounts borrowed were to be restored. As of June 30, 1973, the college had restored \$33,032 to be used in federally funded programs, leaving a balance of \$143,969 to be restored.

OE higher education funds

In July, August, and September 1972, the college transferred \$80,770 of fiscal year 1973 higher education moneys from its Federal programs account to its general operating fund and did not show from which specific Federal programs the moneys came or their specific use. The college's business manager said that these moneys were used for general operations of the college because general operating funds were not available. As of June 30, 1973, \$23,332 had been restored, leaving a balance of \$57,438 to be restored.

OE and HUD construction funds

From July 1968 through June 1973, the college used \$96,231 of Federal funds, which were advanced on OE and HUD construction projects, for other than their intended purposes. As of June 30, 1973, \$9,700 had been restored, leaving a balance of \$86,531 to be restored.

Legal fees

The college purchased property for use as its in-kind contribution on the OE-financed academic building project and borrowed money from a local bank to pay the related legal fees. However, the college placed the borrowed moneys in its general operating fund and used Federal moneys from the construction account to pay the \$14,514 in legal fees.

Federal funds used to pay
interest on Federal loans

In July 1970 and May and October 1972, the college used Federal construction funds to pay \$12,285 in interest on HUD loans for the student union building and dormitory #1 and \$127 in commercial interest and bank service charges. The interest on the HUD loans should have been paid with revenues from the two completed projects. The other charges should have been paid from the general operating account. As of June 30, 1973, the \$12,412 had not been returned to the construction account.

Sales tax refunds on
construction projects

Nonprofit institutions are generally exempt from paying State sales tax on purchases. Such institutions, including schools, are accorded this exemption in North Carolina. The exemption applies both to direct purchases and, as is the case with construction projects, indirect purchases by a third-party builder. In the latter case, rather than the builder, the institution applies for a refund of the taxes paid.

OE and HUD require that sales tax refunds on federally financed construction projects be returned to the appropriate construction account to reduce cost. However, between April 1971 and May 1973, the college deposited at least \$15,621 in sales tax refunds on Federal construction projects in its general operating account to pay general expenses. Before April 1971 the college's accounting records did not identify sales tax refunds related to construction costs.

As of June 30, 1973, none of the \$15,621 had been returned to the construction account nor had it been deducted from total construction costs as required.

Other Federal funds used
for general expenses

In July 1972 the college transferred \$9,700 from the construction account to its general operating fund. College officials said the moneys were used to pay general operating expenses. The moneys were returned to the construction account in August 1972.

HUD funds used for OE project

As of June 30, 1973, the college had not provided \$61,707 in matching funds required by OE on the academic building project. Our analysis of the college's records showed that \$43,984 of Federal funds advanced for three HUD projects was used to pay construction costs of the OE project. The moneys had not been restored to the HUD projects at the completion of our fieldwork in September 1973.

IMPACT OF POOR FINANCIAL MANAGEMENT PRACTICES

Because the college did not have adequate revenues from non-Federal sources, employees working in Federal programs had not been fully paid. In September 1973 the May and June 1973 payrolls, totaling about \$37,000, had not been paid and available funds were insufficient to meet them. In addition, the college had other unpaid bills totaling about \$80,000 which had accumulated on four of the five HUD and OE construction projects but had only \$97 in the construction account. Three construction loans were in default at the close of our fieldwork.

Before June 1972 the college deducted Federal income tax, social security, and State income taxes from employees' pay but did not remit the taxes to the appropriate agencies. As of June 30, 1973, past due Federal and State payroll taxes totaled \$87,455. Taxes withheld from July 1972 through June 1973 were remitted as required. The college's records did not show the portion of taxes relating to Federal programs. In January 1974 the president of the college said that about a third of the unpaid taxes related to employees working in federally funded programs.

The financial management practices of the college also adversely affected the use of federally financed facilities. The HUD construction loan agreements require that the borrower, on or before substantial project completion, provide, from sources other than loan funds, the furnishings and movable equipment necessary for the use, occupancy, and operation of the facility being constructed. Construction

of a second dormitory had been completed; however, the college was unable to provide the estimated \$50,000 to purchase equipment and furnishings needed to use the building. As it happened, the building was not occupied as of September 1973 because enrollment at the college was 370 students less than the previous year.

COMMENTS FROM COLLEGE OFFICIALS

College officials concurred with our findings. They pointed out that the incidents reported took place under an administration no longer affiliated with the college and the practices used by this former administration were not sanctioned by the college's board of trustees.

The officials said that they had implemented a number of practices and procedures to control and safeguard Federal funds, such as

- establishing separate bank accounts for federally funded programs,
- securing an accounting firm trained in college audits to set up accounts and make audits, and
- setting up weekly reviews of all funds and programs.

CHAPTER 3

PROGRAM MONITORING NEEDS IMPROVEMENT

OE and HUD need to provide more extensive preaward evaluation and postaward monitoring of grant and loan programs to insure that the college will be able to fulfill its commitments and that funds are used for intended purposes. We believe that, had OE and HUD effectively monitored the Federal programs at the college, the questionable management practices probably would have been detected earlier and corrective actions could have been initiated.

OE HIGHER EDUCATION PROGRAMS

The OE Atlanta regional office is responsible for administering Federal grants for 5 of the 10 higher education programs at the college--Upward Bound, Special Services, National Direct Student Loan, College Work-Study, and Educational Opportunity Grants. OE headquarters administers the other five programs.

Submission of certified financial reports is not required of any college when applying for funds under the 10 higher education programs. OE program officials do not require verification of budget and financial data contained in a college's application for such funds.

OE officials informed us that, due to a lack of manpower, monitoring of these programs had been limited. The most recent site visits made by OE program personnel are shown in the following schedule.

<u>Program or group</u>	<u>Most recent site visit</u>
Student aid:	
National Direct Student Loan	7-29-71
Educational Opportunity Grant	7-29-71
College Work-Study	7-29-71
College Library Resources	-
Strengthening Developing Institutions	10-14-71
Instructional Equipment	-
Upward Bound	6-21-73
Special Services	6-21-73
Education Professions Development (workshops)	-
Right to Read	11-17-72

The guidelines for site visits for the 10 programs did not provide for reviewing the college's financial management and accounting practices.

The HEW Audit Agency had not audited any of the OE programs at the college at the time we began our fieldwork in July 1973. The Regional Commissioner of Education had requested an audit in June 1973, but HEW Audit Agency officials advised us that they did not make the audit because we were reviewing the college's programs.

An OE program officer's June 1972 report on the Upward Bound program identified five areas of concern, including fund management, and suggested that an audit be made immediately. The program officer told us that because clarifying data was requested and received from the college an audit was not requested. Because a program director at the college alleged that the college had violated Federal guidelines by commingling funds and was not meeting payrolls, OE reviewed the Upward Bound and Special Services program in June 1973. The review confirmed the allegations and OE terminated the fiscal year 1974 grants for both programs.

OE CONSTRUCTION PROJECTS

The OE Atlanta regional office administers construction projects funded by OE at the college. OE approves academic facilities grants and loans on the basis of data in the application submitted by the institution. OE does not require an institution to submit certified financial statements when applying for an academic facilities grant. The institution is required to certify that data provided is correct. When applying for a loan, however, an institution is required to submit its latest certified financial statements.

There is no requirement that OE representatives visit an institution before application, approval, or during or after construction. Representatives usually visit the institution about 1 year after construction is completed to insure that the facility is used for the intended purpose. If problems arise during the grant or loan period, OE procedures provide for requesting an audit by the HEW Audit Agency. OE officials had not been informed of any serious problems, and no audits had been made of the two construction projects at the college.

HUD CONSTRUCTION PROJECTS

HUD does not require an applicant to submit certified financial statements when applying for a college housing loan.

A college housing branch official at HUD's Washington headquarters told us that onsite monitoring of construction projects was performed by HUD's Atlanta regional office until about 1970. At that time HUD determined that close monitoring of these projects was unnecessary because of the low percent of borrowers defaulting on their loans. Since 1970 HUD has required monitoring or audit of the construction loans only when there were indications that the borrower was in financial trouble. HUD's guidelines for monitoring projects during construction do not provide for review of a college's financial management or accounting practices.

A HUD official told us that loan files were transferred from the Atlanta regional office to its Greensboro area office in October 1972. An official at the Greensboro office informed us that the Greensboro staff was aware of problems at the college but due to the lack of staff they had not inspected the college's projects or reviewed its financial statements. Instead they had held several meetings with college officials to explain the college's responsibilities regarding the HUD projects. The official also said the Greensboro staff had canceled a visit to the college when they learned that we had begun a review.

CHAPTER 4

CONCLUSIONS AND RECOMMENDATIONS

CONCLUSIONS

Kittrell College followed a number of questionable financial management practices in controlling and accounting for funds made available to it for use in federally funded programs. As a result

- funds were used for other than their intended purposes,
- funds were not available to meet bond indebtedness and pay construction and other costs relating to Federal programs, and
- three construction loans were in default.

Many of these situations might not have occurred had the college followed its established accounting system.

College officials followed the questionable practices because the college did not have sufficient revenues from non-Federal sources, such as student tuition or church contributions, to meet the college's general operating expenses and matching requirements for certain Federal programs.

OE's and HUD's preaward evaluation and postaward monitoring of grant and loan programs were not adequate to insure that the college was able to fulfill its commitments and that funds were used for intended purposes. Had this evaluation and monitoring been done, the questionable management practices probably would have been detected earlier and corrective actions could have been initiated.

RECOMMENDATIONS TO THE SECRETARY, HEW, AND THE SECRETARY, HUD

The Secretaries of HEW and HUD should:

- Require the college to restore the balance of the Federal funds that were not used for intended purposes.

--Improve their preaward evaluation and postaward monitoring procedures to provide checks on the college's financial management capabilities and accounting controls over Federal funds.

HEW concurred with our recommendations and stated that they would take action to have the funds restored and instruct program officers to recommend audits when program reviews suggest situations such as those that developed at the college.

HUD officials also agreed with our recommendations and stated they were taking appropriate corrective action.

JESSE HELMS
NORTH CAROLINA

United States Senate

WASHINGTON, D.C. 20510

May 31, 1973

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

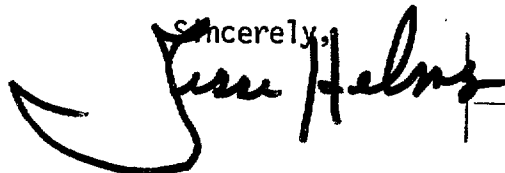
Dear Mr. Staats:

Recently, I received a very disturbing report about the possible misuse of Federal funds previously granted to Kittrell College in Kittrell, North Carolina.

I want to avoid any public comment which might be construed as an accusation against the principals involved until such time as the facts are readily available,

Therefore, I request that the General Accounting Office investigate and audit the expenditure of all Federal funds granted to Kittrell College during the past five years, or whatever period you deem necessary to insure a comprehensive investigation.

Please keep me advised of the progress of your investigation and audit as often as is convenient to your office.

Sincerely,


JESSE HELMS:cc

APPENDIX II

FEDERAL FUNDS AWARDED TO KITTRELL COLLEGE DURING
FISCAL YEAR 1973 FOR HIGHER EDUCATION PROGRAMS

<u>Program</u>	<u>Description of program</u>	<u>1973 funding</u>
Student assistance programs:		
National Direct Student Loan	Authorizes institutions to use funds to make loans to needy, eligible students for meeting educational expenses.	\$ 72,156
Educational Opportunity Grant	Authorizes the payment of grant assistance for educational expenses to enable students of exceptional financial need to pursue higher education. Grants must be awarded by public or private nonprofit institutions of higher education, and the institutions must at least match the Federal grant.	147,249
College Work Study	Authorizes payments to promote the part-time employment of students, particularly students from low-income families, who need assistance to pursue courses of study at institutions of higher education.	205,059
		<u>\$ 424,464</u>
Programs aimed at disadvantaged:		
Upward Bound	A precollege preparatory program designed to generate the skill and motivation necessary for success in education beyond high school among young people from low-income families with inadequate secondary school preparation.	70,829
Special Services	To help low-income and physically handicapped students initiate, continue, or resume postsecondary education by counseling, curriculum modification, tutoring, community and agency liaison, placement, faculty consultants, and other educational services.	55,335
Right to Read	An OE developed program designed to correct the Nation's reading deficiencies. It includes the establishment of demonstration projects, work with State departments of education, and work with existing special projects which have broad implications for education. Some project sites are school based and others are community based, operating in community houses, libraries, rural centers, even prisons.	40,000
Strengthening Developing Institutions	This program was designed to assist developing institutions of higher education in strengthening their academic, administrative, and student service programs so that they might participate adequately in the higher education community. Funds are available for cooperative arrangements, teaching fellowships, and professors emeriti awards.	^a 371,000
		<u>\$ 537,164</u>
Other higher education programs:		
College Library Resources	Authorizes grants to institutions of higher education to assist and encourage them in the acquisition of library materials and thereby improve educational opportunities for students.	8,594
Instructional Equipment	A program to improve the quality of undergraduate instruction in institutions of higher education by providing financial assistance on a matching basis for the acquisition of instructional equipment, materials, and related minor remodeling.	25,000
Educational Professional Development	Authorizes training programs to assist colleges and universities in meeting critical shortages of highly qualified personnel who are serving or are preparing to serve as teachers, administrators, or educational specialists in institutions of higher education.	38,000
		<u>\$ 71,594</u>
Total		<u>\$1,033,222</u>

^a\$174,500 was subsequently transferred to other colleges by Kittrell College.

BEST DOCUMENT AVAILABLE



DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20201

MAR 5 1974

Mr. Gregory J. Ahart
Director, Manpower and
Welfare Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Ahart:

The Secretary has asked that I reply to your letter dated January 14, 1974, pertaining to the General Accounting Office draft report on the administration of Federal programs at Kittrell College, Kittrell, North Carolina. The attached statement sets forth our comments on the matters discussed in the report and are the product of a review by the officials responsible for the programs cited in the report.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "John D. Young".

John D. Young
Assistant Secretary, Comptroller

Enclosure

Department of Health, Education, and Welfare Comments Pertinent to the Draft Report by the General Accounting Office Entitled "Administration of Federal Programs at Kittrell College, Kittrell, North Carolina"

GAO RECOMMENDATIONS TO THE SECRETARY, HEW, AND THE SECRETARY, HUD

HEW and HUD should:

- require the college to restore the balance of the Federal funds that were not used for intended purposes.

DEPARTMENT COMMENT:

We will require the college to restore the balance of Federal funds that were not used for intended purposes.

GAO RECOMMENDATIONS TO THE SECRETARY, HEW, AND THE SECRETARY, HUD

HEW and HUD should:

- improve their pre-award evaluation and post-award monitoring procedures to provide checks on the college's (1) financial management capabilities, and (2) accounting controls over Federal funds.

DEPARTMENT COMMENT:

We will improve our pre-award evaluation and post-award monitoring procedures to provide checks on the college's (1) financial management capabilities and (2) accounting controls over Federal funds.

We agree that more extensive pre-award evaluation and post-award monitoring of grant and loan programs might have assured that the college would have been able to fulfill its commitments, and that the funds probably would have been used for their intended purpose. We believe, however, that our procedures are generally sufficient to give reasonable protection to the government's interest in the various programs cited in this report. In the future our Program Officers will be alerted to recommend audits by the HEW Audit Agency when program reviews suggest the possibility of situations such as developed at Kittrell College.



DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

FEDERAL HOUSING ADMINISTRATION

WASHINGTON, D. C. 20411

APR 17 1974

ASSISTANT SECRETARY-COMMISSIONER

Mr. Henry Eschwege
Director
Resources and Economic Development Division
United States General Accounting Office
Washington, D. C. 20548

Dear Mr. Eschwege:

This letter is in response to your letter of January 15, 1974, requesting written comments on your draft report on the Administration of Federal Programs at Kittrell College, North Carolina.

We have carefully reviewed the draft report and offer the following comments on the portion pertaining to the College Housing Program administered by this Department.

1. The fiscal data and the status of the College Housing projects at Kittrell College as shown in the draft report are essentially correct.
2. The description in the report on applicable HUD procedures for monitoring College Housing projects is also essentially correct***.

[See GAO note p. 27.]

[See GAO note p. 27.]

It should be noted that in March 1972, a fire at Kittrell College destroyed most of the financial records. Some of the financial records were subsequently found at the bottom of a nearby lake, therefore, it will be virtually impossible to reconstruct the complete financial records of the College. The Department has monitored and will continue to monitor the financial operation of all College Housing financed projects.

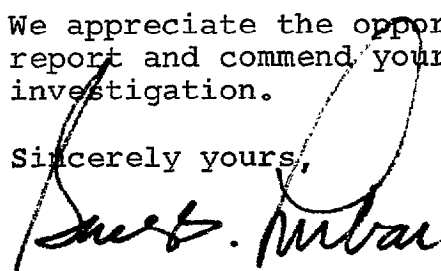
3. We also agree with the conclusions of the draft report, as well as the recommendation that the College restore the balance of the HUD funds that were used for other than the intended purpose. We note here that in a letter from the College's president to the HUD Area Director in Greensboro, North Carolina, dated December 13, 1973, the College reiterates its intention of meeting its obligations and restoring the funds in the construction account. Further, we are confident that HUD officials responsible for these projects in the Greensboro Area Office will make sure that the College does carry out its intentions.

[See GAO note p. 27.]

[See GAO note.]

We appreciate the opportunity to comment on this draft report and commend your staff for their diligent investigation.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Sheldon B. Lubar". The signature is written in a cursive style with a large, looped initial "S".

Sheldon B. Lubar

GAO note: Material deleted from the letter was not directly pertinent to the findings, conclusions and recommendations contained in the final report.