



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

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The Honorable Charles W. Whalen, Jr.
House of Representatives

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Dear Mr. Whalen:

On October 2, 1974, you requested us to review certain allegations concerning the Model Cities Planning Council in Dayton, Ohio. The specific areas of concern involved ^{P2732}

- 2 --possible violations of the Department of Housing and Urban Development's conflict-of-interest guidelines and
- questionable payments made to Planning Council members and staff.

On the basis of the information we obtained we cannot conclude that the Department's conflict-of-interest guidelines were violated. We found that the charges concerning questionable payments to Planning Council members and staff were generally true and that the Department and Dayton had not exercised adequate fiscal control over these payments.

We made our review at Department headquarters, Washington, D.C.; the Department's area office in Columbus, Ohio; and at the City Demonstration Agency, Model Cities Planning Council, and other agencies involved in the Model Cities Program in Dayton. We reviewed Department guidelines and city contract provisions pertaining to conflict of interest, documentation related to the questionable payments to Planning Council members and staff, and discussed these matters with Department and city officials and the five individuals named in this report.

BACKGROUND

The Model Cities Program was established by title I of the Demonstration Cities and Metropolitan Development Act of 1966 (42 U.S.C. 3301). The local Model Cities Program consisted of (1) a 5-year comprehensive demonstration plan describing the city's needs in terms of projects required to make a noticeable impact on social, economic, and physical problems and (2) annual action plans which outlined projects

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to be carried out each year. The Department was responsible for administering the Model Cities Program at the Federal level and for allocating funds to the cities for these plans.

The Dayton Model Cities Program began in 1967 and included one section of Dayton known as the Inner West target area. The 27-member Model Cities Planning Council was elected by Inner West residents to be the policymaking body for their program. The Planning Council was adopted in Dayton to guarantee the widespread citizen participation required by Model Cities legislation. The Planning Council's administrative staff carried out the council's policies.

The Planning Council's fiscal matters were monitored by the City Demonstration Agency, which was an administrative unit of the Dayton municipal government and reported directly to the city manager. By December 31, 1974, the Inner West Model Cities Program had received Federal funds totaling \$15,405,000, of which \$1,938,996 was for the Planning Council's operation. The Housing and Community Development Act of 1974 terminated the Model Cities Program on January 1, 1975. The Model Cities Program and six other categorical programs were consolidated by the 1974 act into one block grant program. However, since Model Cities activities are eligible under the 1974 act, Dayton plans to continue some of the projects and citizen participation activities.

CONFLICTS OF INTEREST

Information you provided to us listed three cases of alleged conflicts of interest concerning actions of the City Demonstration Agency's former director and council and staff members of the Model Cities Planning Council. The specific charges and the results of our work are summarized below:

Charge No. 1--In February 1973 the City Demonstration Agency approved reimbursement of \$271.72 to Mr. Reginald Dunn, assistant director of the Model Cities Planning Council. This payment was made for damages and losses due to theft from Mr. Dunn's automobile while he was on official business. Mr. Dunn apparently did not attempt to collect anything from his private insurance company. At the time the payment was made, Mrs. Dunn was director of the City Demonstration Agency.

Neither the conflict-of-interest provisions of the contract between the city and Planning Council nor the Department's guidelines pertaining to conflict of interest specifically address a husband and wife relationship as

existed in this situation. Dayton did not have a written policy on nepotism and related matters until August 1974, several months after Mr. and Mrs. Dunn terminated their respective employment with the Planning Council and the City Demonstration Agency. 1.2733

The Planning Council paid Mr. Dunn for losses and damages due to theft. This payment was approved by the Planning Council administrator and was audited by the City Demonstration Agency auditor. On March 20, 1973, Mrs. Dunn, who was the acting administrator of the City Demonstration Agency approved the Model Cities Planning Council's expenses for the month of February 1973 and authorized the city to reimburse the council for \$44,263. Included in this amount was the \$271.72 payment to Mr. Dunn. In approving monthly expenses, Mrs. Dunn would not review vouchers on an individual basis unless the auditor had raised some questions concerning eligibility of the expenses incurred.

The Department's legal counsel stated that for a conflict-of-interest problem to exist, an officer must use his or her power to bring about direct or indirect personal benefit. Department officials believed that Mrs. Dunn's actions in this case did not constitute a conflict of interest. Dayton's legal counsel also felt that the criteria necessary to constitute a conflict-of-interest charge were not met in this case.

The claim submitted by Mr. Dunn showed that the break-in and theft occurred while he was attending a meeting at the City Demonstration Agency in his capacity as assistant director of the Model Cities Planning Council. The claim listed the following items.

Window	\$ 49.72
Tennis racket	80.00
Tennis case	28.00
One pair tennis shoes	17.00
Tire and rim	<u>97.00</u>
Total	<u>\$271.72</u>

There was no supporting documentation attached to the claim. The police report showed the value of the sports equipment and tire and rim as \$135 but did not show the value of the broken window. Mr. Dunn could not explain the difference between the \$135 value placed on the sports equipment and tire and rim as shown in the Dayton Police report, and the \$222 value for the same items as shown on

his payment voucher. Also, Mr. Dunn could not furnish receipts or other documentation supporting the value of the items.

Mr. Dunn said that he did not make a claim to his insurance company because this was not the first break-in which occurred, and he feared increased insurance rates or cancellation of his policy.

The Planning Council director stated that the reimbursement to Mr. Dunn was justified because he was on council business when the theft occurred and the Planning Council had a moral obligation to reimburse him. In December 1974 the City Demonstration Agency administrator and assistant administrator stated that they concurred in the director's decision in this matter.

Department guidelines stated that the eligibility criteria used for reimbursement of program cost must be no more liberal than policies practiced by other city activities. Dayton officials stated that a similar payment would have been made to a city employee if proper documentation was submitted with the claim.

In light of the facts and circumstances we cannot say that this situation constituted a violation of the Department's contract provisions regarding conflict of interest. However, we question the validity of the payment made to Mr. Dunn because the Planning Council did not obtain supporting documentation to verify the value of the items claimed.

Charge No. 2--A monthly rental of \$200 has been paid consistently from program funds for use of part of a building owned by Barbara Johnson, wife of Planning Council member Russell Johnson.

The Model Cities Planning Council's financial records showed that the Planning Council made rent payments from January 1971 through May 1974, totaling \$5,250 to the Johnsons for the property owned by Mrs. Barbara Johnson. The contract between Dayton and the Planning Council stated that no officer, official, agent, or employee of the Planning Council should have any personal financial interest, direct or indirect, in the contract. Mr. Johnson was a council member and did benefit indirectly from the contract.

This contract further stated, however, that conflict-of-interest provisions should not be interpreted to unreasonably impede the statutory requirement that maximum opportunity be provided for area residents' participation. Mr. and Mrs. Johnson were Inner West residents.

Department guidelines provide that, in applying the contract provisions dealing with conflict-of-interest situations, several factors should be considered, including (1) public disclosure of the situation and (2) the individual's responsibility in the decisionmaking process.

Information we received showed that Mr. Johnson did not try to conceal that his wife was receiving rent payments from the Planning Council. The administrator of the City Demonstration Agency stated that the City Demonstration Agency had been aware of this situation. Mr. Johnson stated that he did not participate in any vote regarding the renting of his wife's property. Mr. Johnson also stated that he did not solicit tenants for the property, but, rather, the interested parties contacted the Planning Council about it. We could not verify this information because the Planning Council could not provide us with minutes of the meetings where this subject was discussed.

We were told by Dayton officials that in this case the factors necessary to constitute a conflict of interest were not present and, therefore, a conflict-of-interest situation did not exist. The Department's legal counsel also believed that this situation did not constitute a conflict of interest.

Considering the foregoing, we have no basis for disagreeing with the conclusion of the Department and the city that this situation was not in violation of the conflict-of-interest provisions of the contract between the city and the Planning Council.

Charge No. 3--The Model Cities Planning Council provided rent-free quarters and paid telephone bills for Operation Proceed, a private corporation headed by Planning Council member Gerald Davis.

Operation Proceed is a nonprofit corporation founded in March 1972 to aid minority entrepreneurs in establishing, maintaining, and expanding their businesses. Mr. Davis received no salary, from either the corporation or the Planning Council, as the director of this corporation.

On the basis of Operation Proceed's objectives, the Planning Council decided to help Mr. Davis start the program by paying rent and telephone expenses until funds could be secured from another source. The Planning Council made rent payments from February to July 1972 totaling \$1,250. In August 1972 the project moved to a rent-free location. The Planning Council paid \$1,658 in telephone bills for Operation Proceed from August 1972 to October 1974.

City Demonstration Agency officials stated that the Planning Council often assisted projects which were closely aligned to the Council's objectives before these projects were funded with separate project funds. The legal counsels for the Department and the city agreed that none of the criteria constituting a conflict-of-interest situation were met in this case and therefore no conflict of interest existed.

From what is set forth above we cannot say that the position of the Department and the city was in error.

QUESTIONABLE PAYMENTS TO PLANNING
COUNCIL MEMBERS AND STAFF

An attachment to your October 2, 1974, letter stated that an examination of Model Cities Planning Council payment vouchers disclosed glaring and repeated violations of Department spending guidelines. Specifically, the concern was with

- the payment of undocumented travel expenses,
- reimbursement payments made to Planning Council members for attendance at meetings and monitoring sessions when attendance at such functions was not properly documented, and
- the payment of wage-loss allowances to unemployed council members.

Regulations and policies concerning payments to Planning Council members and staff were included in the Dayton Model Cities Uniform Accounting Procedures Manual.

Travel expenses

Model Cities Planning Council members and employees, upon written approval by authorized officials, were permitted to travel at agency expense to conduct agency business or attend meetings for the agency's benefit. Council members and staff were to be reimbursed for actual transportation and lodging expenses. Meal costs were to be reimbursed up to \$10 a day.

The attachment to your October 2, 1974, request stated that documentation for travel expenses was flimsy, incomplete, or missing in several cases.

Charge No. 1--Planning Council administrator J. Paul Prear billed the program for \$840 for travel, meeting registration, lodging, and other expenses involved in attending a Los Angeles conference in April 1973. The claim was paid even though (1) Mr. Prear could not find the registration receipt showing that he actually attended the conference and (2) Mr. Prear claimed a second round trip airline ticket purchased for his wife, who accompanied him on this trip.

On April 11, 1973, Mr. Prear was given a travel advance of \$840 to attend the American Society of Planning Officials conference in Los Angeles, California.

Although the travel request did not specifically request travel for another person, Mr. Prear was advanced \$548 for air fare, which was enough to cover two roundtrip tickets to Los Angeles. Mr. Prear said that he took his wife to do secretarial duties at the conference. Mrs. Prear was not an employee of the Planning Council, nor was there a contractual service agreement for the reimbursement of Mrs. Prear's travel expenses as required by the Model Cities Uniform Accounting Procedures. The plane tickets attached to Mr. Prear's travel voucher showed that they left Dayton on April 12, 1973, at 5 p.m. and left Los Angeles for Dayton at 9:35 a.m. on April 15, 1973.

A copy of the registration receipt for the conference was not attached to Mr. Prear's travel voucher. Mr. Prear told us he could not locate the receipt. He maintained that he paid the registration fee and that he had a receipt but did not have time to search his files thoroughly to locate it. A representative of the American Society of Planning Officials said that there was no record of Mr. Prear's registration for the April 1973 conference. According to Society documentation, the conference was from April 7 to April 12, 1973. Since Mr. Prear did not leave Dayton until 5 p.m. on April 12, it would have been impossible for him to have attended the conference.

When questioned further, Mr. Prear stated that he had not actually attended the conference but went to Los Angeles after the conference ended to talk with individuals who had attended the conference to obtain information concerning the matters discussed during the conference. We believe the necessity of the trip is questionable, especially since the Planning Council's assistant director attended the entire conference from April 7 through 12, 1973.

Department guidelines stated that travel costs exceeding those allowed by the local government for its equivalent employees were ineligible. Dayton's city manager stated that to incur a \$840 expense to travel to Los Angeles for the above purpose was definitely violating city travel policy. He stated that if this situation concerned an equivalent city employee, he would demand restitution and refer the case to the city's law department for further action, if necessary. The city manager stated that the city, together with the Department would attempt to recover the cost of this trip. Department officials advised us that the eligibility of the costs incurred on Mr. Prear's trip to Los Angeles would be included in their next audit of the Dayton Model Cities Planning Council.

Review of other Model Cities Planning
Council travel vouchers

We reviewed 11 travel vouchers covering claims submitted by the staff and members of the Planning Council during a 25-month period starting on October 1, 1972. There was a total of \$3,604.84 in travel expenses claimed on these vouchers.

Our analysis showed that 10 of the 11 vouchers reviewed contained claims for questionable expenses. For example:

- Expenses were claimed for travel days exceeding those authorized.
- Expenses were claimed for an entire day when travel did not start until late afternoon or early evening.
- Registration fees were claimed for a sightseeing tour and fashion show.
- Transportation and lodging expenses were claimed for a Planning Council member's wife for a roundtrip from Dayton to Washington, D.C.

The supporting documentation was either missing or inadequate for 8 of the 11 vouchers. For example:

- missing passenger coupons validating use of plane tickets,
- a receipt for lodging lacking the travelers name and the name of the hotel or motel,
- lack of information pertaining to arrival and departure times needed to justify meal costs,

- taking a trip without previous authorization, and
- using a rental car without authorization.

We feel that the charge concerning travel payments to Planning Council staff and members is true and that the Department should review the eligibility of all travel expenditures. Those expenditures which are determined to be ineligible should be recovered.

Department officials stated that they would, in their next audit, specifically review travel payments made to Planning Council members and staff.

Reimbursement for meetings and monitoring

The 27-member Planning Council was subdivided into 11 functional committees. Council members were paid \$10 a meeting for attending Planning Council meetings and committee meetings. Planning Council members were also eligible for reimbursement at a rate of \$5 an hour when monitoring certain projects and programs.

The Dayton Model Cities Uniform Accounting Procedures required council members to submit proper documentation for meetings and monitoring sessions attended. These reports were to include the nature and time of the activity attended. Each report was also to contain the committee chairman's signature certifying that the member making the claim actually attended the activity.

Charge No. 2--There were numerous examples of lack of documentation found while checking payment vouchers from 1972 through 1974. For example, Planning Council member Dorothy Speed received \$422 in November 1972 for attendance at meetings. Yet 12 of the 21 authorization sheets (reports) submitted carried no authorization by any committee chairman. The remainder were approved by Mrs. Speed, as the education committee chairman.

From January 1, 1972, to December 31, 1974, Mrs. Speed received payments of \$17,390 for meetings, monitoring, and wigelosses. According to the November 22, 1972, report, Mrs. Speed was paid \$422.60 for attendance at meetings and monitoring sessions and for wigelosses for the 51 days preceding November 22, 1972. We found 26 reports submitted by Mrs. Speed supporting the payment made, rather than 21 as stated in the charge. All 26 reports contained the authorizing signature of a committee chairman, with 23 of

the reports being signed by Mrs. Speed as chairman. The Planning Council's fiscal officer said that Mrs. Speed's authorization of her attendance at meetings was proper.

We noted that Mrs. Speed was paid \$72.50 for 14.5 hours of monitoring claimed on November 16, 1972. When questioned about this unusually high claim, Mrs. Speed stated that it was an error. She said the claim should have been for 2.5 hours or \$12.50 and that she was overpaid \$60. Dayton officials stated that the city, together with the Department, would attempt to recover this overpayment.

Review of other reimbursement vouchers
for meetings and monitoring

To evaluate the procedures regarding payments of claims for attendance at meetings and monitoring activities, we reviewed 9 of the 224 vouchers processed from October 1, 1972, to October 31, 1974. These nine vouchers were submitted by five council members and covered claims totaling \$1,640. Our review showed the following examples.

- Documentation attached to three of the nine vouchers only partially supported the amount paid.
- Required authorizations on 26 of 90 reports filed with the vouchers were missing.
- Times of meetings and monitoring sessions were missing for 59 of the 142 activities cited on the 90 reports.
- Payments were made for meetings attended in Dayton while the member also claimed out-of-town travel expenses for the same day.
- Payments were made on several occasions for attendance at more than one meeting and/or monitoring session claimed on the same date and at the same time.

We believe that the charge concerning reimbursement payments to council members for meetings and monitoring activities is true. Further, we believe that the Department should make a complete audit of the Planning Council's expenditures for reimbursement payments.

Department officials said they would specifically review reimbursement payments to Planning Council members in the next audit.

Wage-loss payment

According to the Uniform Accounting Procedures, Planning Council members were eligible for payment equal to lost wages for attending official work sessions, training programs, or special project planning sessions. These payments were in addition to the reimbursements for meetings and monitoring.

Salaried and hour-rate members were allowed to receive payment for lost wages based on a certified pay rate received from the member's employer and filed with the Planning Council secretary.

Housewives, as well as self-employed and retired members, were also eligible for wage-loss payments. The practice of making such payments was established on the basis that these individuals were entitled to some reimbursement for time spent attending certain Planning Council sessions. These rates were established by the council member and the Personnel and Finance Committee. We could not determine the amount of wage-loss payments paid to council members during the period under review since the accounting records did not differentiate between wage-loss payments and reimbursements for meetings and monitoring.

Charge No. 3--Planning Council member Gerald Davis and two other council members were receiving wage-loss payments while they were unemployed.

Gerald Davis was unemployed while receiving wage-loss payments from the Planning Council. Making payments to unemployed individuals for attendance at certain Planning Council sessions is not discussed in the Uniform Accounting Procedures. The Planning Council director said the intent of wage-loss payments was to compensate the member for the time spent performing Planning Council business. City Demonstration Agency officials stated the practice of paying wage-loss payments to the unemployed had never been challenged in any previous certified public accountant or Department audits of the Planning Council. Department officials stated they saw nothing wrong with this practice.

The two other individuals referred to in the charge were considered by the Planning Council to be self-employed. Wage-loss payments to the self-employed and employed council members is addressed in the following section.

Wage-loss payments to self-employed
and employed council members

Generally the Planning Council's records related to wage-loss payments to the employed and self-employed were inadequate.

The Planning Council was required to have documentation on file, verifying the wage rates of employed council members. There was documentation supporting the wage-loss rates paid for only 8 of the 13 employed council members. After we brought this to the attention of the Planning Council fiscal office, the Planning Council obtained documentation for the remaining five employed council members.

For the self-employed, discussions were generally held between the Planning Council's fiscal officer and the self-employed members and a mutually agreed-upon rate was determined. This rate was supposedly based on the going rate of the member's trade and the member's earnings. There was no documentation to substantiate the negotiated rates established for the six self-employed council members.

Department officials stated that this matter would be included in the next audit of Dayton Model Cities Planning Council. City officials stated that they would take appropriate action based on the Department's audit findings and recommendations.

Inadequate monitoring by the city
and lack of Department followup

We believe that Dayton's monitoring of payments to Model Cities Planning Council members and staff was inadequate and that the Department was deficient in following up on previously reported weaknesses.

The City Demonstration Agency was the city's administrative unit responsible for monitoring the fiscal activities of the Planning Council. The Department administered the Model Cities Program at the Federal level.

The last two Department audit reports of the City Demonstration Agency concluded that the agency's monitoring of the Planning Council was inadequate. In each case, the city promised corrective actions. For example, in the Department's March 10, 1972, audit report covering the period November 1, 1968, to April 30, 1971, Department auditors stated:

"Travel costs are advanced on the basis of estimates. After the actual costs were determined, the excess held by the traveler was not returned."

In response to this specific finding, the City Demonstration Agency stated in its April 27, 1972, letter to the Department that unused travel advances would be returned or deducted from the traveler's paycheck or meeting attendance reimbursement.

We reviewed the status of unused travel advanced for October 1, 1972, to June 30, 1974. None of the excess travel advances, which totaled \$2,814, had been repaid as of December 30, 1974. The Planning Council fiscal officer stated that unused travel advances had not been collected from the program's inception in 1968. The amount owed to the Planning Council, therefore, is far greater than the amount mentioned above. The Department's February 28, 1973, audit report for the period May 1, 1971, to September 30, 1972, did not specifically address the excess travel advances even though the problem had not been corrected from the previous audit.

We reviewed the last four certified public accountant audit reports concerning the Model Cities Planning Council. These reports covered the period February 20, 1969, to September 30, 1972. The firms questioned a number of cash disbursements, pointed out weaknesses in internal control, cited examples of lack of required documentation, and noted violations of Department guidelines and the Uniform Accounting Procedures.

Because of a lack of proper accounting records, and omissions from existing records, each of the firms conducting these audits concluded that it could not render an opinion regarding the financial statements of the Planning Council.

CONCLUSIONS

Our limited review of the fiscal activities of the Model Cities Planning Council revealed examples of overpayments, payments made without proper documentation, payments made without proper authorization, and other questionable expenditures by the Planning Council. In addition, the certified public accounting firms conducting the last four audits of the Planning Council would not render an opinion on the financial condition of the Planning Council due to a lack of proper accounting records and omissions from

existing records. In view of these matters, we question the effectiveness of the fiscal control exercised by Dayton over the reimbursement payments made to Model Cities Planning Council members and staff.

Previous Department audits concluded that weaknesses existed in the city's monitoring of the fiscal activities of the Planning Council. We believe that the Department did not take proper steps to insure that the reported weaknesses were corrected.

Department officials said that an audit of the Model Cities Planning Council would be made and that an attempt would be made to recover costs which were deemed ineligible including the specific matters raised in our report.

On February 1, 1975, Dayton placed the operations of all Federal programs, including the carryover activities from the Model Cities Program, under the direct control of the Finance Department. All expenditures will be monitored and processed through the city's centralized accounting system. The city believes this new operation will result in great improvement in fiscal control over all Federal programs.

RECOMMENDATIONS TO THE SECRETARY
OF HOUSING AND URBAN DEVELOPMENT

We recommend that the Department:

- Undertake an audit of the Model Cities Planning Council with primary emphasis being directed toward evaluating (1) the validity of the payments for travel expenses, attendance at meetings and monitoring activities, and wage-loss allowances and (2) the adequacy of fiscal controls over such payments.
- Recover costs which are identified as ineligible by the audit.
- Followup to insure that Dayton exercises adequate monitoring of Planning Council activities, including requiring the establishment by the Planning Council of adequate accounting records and internal fiscal controls, to prevent recurrence of the previously reported weaknesses.

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As your office requested we did not give the Department or the city an opportunity to formally review and comment on the matters discussed in this report. However, we have discussed these matters with officials of these organizations and individuals named in this report and included their comments when appropriate.

As agreed with your office, we are sending copies of this report to the Secretary of Housing and Urban Development. Also, copies of the report are being sent to the Chairmen of the House and Senate Committees on Government Operations and on Appropriations.

We do not plan to distribute this report further unless you agree or publicly announce its contents.

Sincerely yours,



Comptroller General
of the United States