



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

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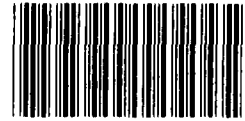
ACCOUNTING AND FINANCIAL  
MANAGEMENT DIVISION

B-209441

OCTOBER 14, 1982

RELEASED

The Honorable Henry J. Hyde  
House of Representatives



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Dear Mr. Hyde:

Subject: Summary of Survey on the Federal Sources of  
Funding for Nine Nonprofit Organizations  
(GAO/AFMD-83-9)

Your November 16, 1981, letter requested us to determine if any of 17 organizations received Federal funds during calendar 1977 through 1981 and distributed them to suborganizations which might have used those funds for political purposes or for any other prohibited activities.

As agreed with your office, we determined the extent of Federal funding to each of the specified organizations and determined the nature and extent of the six awarding Federal agencies' efforts to monitor the several grants and contracts in question. We also briefed your staff on two occasions and agreed to provide this letter summarizing the results of our work.

We found that 9 of the 17 organizations received Federal funds during the 5-year period specified in your request. Six Federal agencies awarded 31 grants and 13 contracts totaling approximately \$5.8 million to these 9 organizations.

We also found that:

- Ninety percent of all the grant and contract funds awarded to these organizations are subject to audit.
- Eight completed audits have not disclosed any use of Federal funds for political purposes although some costs have been questioned for other reasons.
- In two reported instances, personnel of these organizations were engaged in improper activities.
- A majority of the grant-in-aid programs through which grants were awarded to these organizations have been terminated, will be terminated, or will become part of block grants to the States.

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--Changes made by the agency ACTION regarding the VISTA (Volunteers in Service to America) program--the program through which nearly half of all the funds identified in our survey were awarded--should reduce the potential for misuse of funds.

--The Office of Management and Budget recently promulgated guidelines directing attention to the possibility of grantees' misuse of funds for political purposes.

The enclosure that follows provides a detailed summary of these findings. If you have any questions about the contents of this report, we will be glad to discuss them with you or your staff.

Sincerely yours,



W. D. Campbell  
Acting Director

Enclosure - 1

STATEMENT OF FACTS

Six Federal agencies awarded 31 grants and 13 contracts totaling \$5,843,400 during calendar 1977 through 1981 to 9 of the 17 organizations identified in your request of November 16, 1981. Some of the 17 organizations may have received Department of Labor CETA (Comprehensive Employment and Training Act) funds from CETA prime sponsors. However, as agreed with your office, we did not determine which of these organizations may have received such funding.

On the next page are the number and value of grants and contracts awarded to each organization as well as the awarding Federal department or agency.

MOST OF THE FEDERAL GRANT AND CONTRACT FUNDS  
IDENTIFIED IN THIS SURVEY  
ARE SUBJECT TO AUDIT

Ninety percent of the \$5.8 million awarded in grants and contracts to the nine organizations--\$5.3 million--is subject to audit. Some of the grants and contracts have already been audited; some are being audited; others are scheduled or planned for audit.

The completed audits disclosed no misuse of Federal funds for political purposes although costs in two cases were questioned for other reasons. Also, personnel of two of these organizations were found to be engaged in improper or prohibited activities, for which agency authorities took corrective action.

Completed audits

Audits of seven grants and one contract totaling \$1,418,254 have been completed and have not disclosed any misuse of Federal funds for political purposes. However, two of these audits resulted in costs being questioned for other reasons. The first concerned the audit of a \$71,182 Department of Housing and Urban Development contract awarded to the National Training and Information Center. Department of Housing and Urban Development Inspector General auditors performed this audit which resulted in \$29,284 of costs being questioned due to inadequate documentation.

The second dealt with the audit of a \$470,211 grant to the Youth Network Council which was awarded by the Department of Justice through the now defunct Law Enforcement Assistance Administration. As a result of this audit, which was performed by Department of Justice auditors, \$35,504 in costs was questioned. These costs were questioned for various reasons, most of which involved inadequate recordkeeping.

The remaining six grants which were audited were awarded by the Department of Health and Human Services to the Youth Network Council and totaled \$876,861. No costs were questioned by the certified public accounting (CPA) firms performing the audits.

Dollar Value of Grants and Contracts Awarded to Nine Organizations

<u>Organization</u>	<u>Federal dollars received</u>	<u>Grants</u>	<u>Contracts</u>	<u>Grantor</u>
Citizen/Labor Energy Coalition	\$ <u>20,000</u>		2	Energy
Illinois Public Action Council	25,000	3		ACTION
	48,425	1		Education
	<u>3,900</u>		1	Education
	<u>77,325</u>			
Laurel Springs Institute	<u>205,074</u>		1	ACTION
Midwest Academy	<u>595,846</u>	1		ACTION
National Student Educational Fund	521,412	6		Education
	<u>276,378</u>		4	Education
	<u>797,790</u>			
National Training and Information Center	761,218	3		ACTION
	251,961		4	Housing and Urban Development
	75,000	1		Justice
	<u>10,000</u>		1	Energy
	<u>1,098,179</u>			
U.S. Student Association	<u>107,630</u>	2		Education
Youth Network Council	1,076,861	7		Health and Human Services
	<u>470,211</u>	1		Justice
	<u>1,547,072</u>			
Youth Project	1,301,298	3		ACTION
	75,340	2		Health and Human Services
	<u>17,846</u>	1		Education
	<u>1,394,484</u>			
<b>Total</b>	<u><u>\$5,843,400</u></u>	<u><u>31</u></u>	<u><u>13</u></u>	

Scheduled, planned, and required audits

Audits are scheduled, planned, or required for 18 grants and 2 contracts awarded to the 9 organizations. These grants and contracts total \$3,870,749.

ACTION Office of Compliance and Inspector General personnel told us that the seven grants awarded to the Midwest Academy, the National Training and Information Center, and the Youth Project under the discontinued National VISTA Grants Program will be audited by CPA firms. These grants total \$2,658,362 or 45 percent of all Federal funds identified in this survey. In addition, an audit is planned for the VISTA training contract for \$205,074 awarded to the Laurel Springs Institute.

Also, Department of Housing and Urban Development personnel told us that one of its contracts for \$112,000 which was awarded to the National Training and Information Center will be audited. In addition, a \$200,000 Department of Health and Human Services grant awarded to the Youth Network Council will be audited.

The Department of Education awarded the remaining 10 grants to four of the nine identified organizations--the National Student Educational Fund, the U.S. Student Association, the Youth Project, and the Illinois Public Action Council--under four different programs. These programs are the Women's Educational Equity Act Program, the Fund for the Improvement of Post-Secondary Education, the Consumer Education Program, and the Environmental Education Program. Department of Education Inspector General personnel told us that grantees awarded funds under these programs are subject to the Education Division General Administrative Regulations. According to inspector general personnel, these regulations direct grantees to contract for CPA audits at least once every 2 years. However, according to these officials, copies of these audits are not reviewed or received by the inspector general's office. These 10 grants total \$695,313.

Six other grants and 10 contracts awarded to these nine organizations have not been audited, and there are currently no plans to audit them. These awards total \$554,397 or about 10 percent of all Federal funds awarded to the nine organizations.

Personnel engaged in improper activities

Our examination of available reports and documents other than audit reports disclosed two reported instances in which personnel of two of the nine organizations were engaged in improper or prohibited activities. In one incident, an Illinois Public Action Council VISTA supervisor was removed from his position when ACTION State monitors discovered he also worked as an associate director for the Illinois Coalition Against Reagan Economics. In a second incident, VISTA volunteers assigned to a community organization sponsored by the Midwest Academy were found to be "engaged in a labor union organizing drive." ACTION's Office of Compliance di-

rected these volunteers to end their participation in this activity.

MOST FEDERAL GRANT PROGRAMS IN THIS SURVEY HAVE BEEN OR WILL BE TERMINATED OR WILL BECOME PART OF BLOCK GRANTS

All the grants awarded to the nine organizations were awarded through 10 different Federal programs. According to agency officials, only 3 of the 10 programs--the Department of Education's Fund for the Improvement of Post-Secondary Education, the Department of Health and Human Services' National Institute of Mental Health Metropolitan Mental Health Program, and the Department of Health and Human Services' Runaway and Homeless Youth Program--will remain active under current proposals. The other seven programs have been terminated, will be terminated, or are expected to become part of block grants to the States.

Three programs--ACTION's National VISTA Grants Program, the Department of Health and Human Services' Youth Employment and Training Program, and the Department of Justice's Law Enforcement Assistance Program--have been terminated. Another program, VISTA, will end under current Administration proposals in 1983. Together, these four programs account for 59 percent (\$3.5 million) of all Federal funds awarded to the nine organizations.

Of the three remaining programs, two programs--the Department of Education's Consumer Education Program and its Environmental Education Program--became part of the Educational Consolidation and Improvement Act Block Grant in fiscal 1982. The other program, the Department of Education's Women's Educational Equity Act Program, is expected to become part of a block grant to the States in fiscal 1983. Altogether, these three programs account for 6 percent (\$0.4 million) of all Federal funds awarded to the nine organizations.

ACTION'S REDIRECTION OF THE VISTA PROGRAM SHOULD CUT THE POTENTIAL FOR MISUSE OF FUNDS

ACTION administrators and VISTA program managers recently redirected the VISTA mission. One of the purposes of this redirection is to cut the potential for misuse of program funds.

A major component of this effort has been VISTA's termination of the National VISTA Grants Program. Under this program begun in 1977, VISTA headquarters personnel selected 13 grantee organizations including the Midwest Academy, the National Training and Information Center, and the Youth Project to serve as sponsors for several other organizations--in effect, subgrantees--located throughout the United States. ACTION Inspector General and Office of Compliance personnel told us that several VISTA program requirements or procedures were waived or suspended when the 13 national VISTA grantees were selected. We were told, for example, that the requirement that VISTA grantees have a CPA-certified accounting

capability was waived and that VISTA regional directors were told that the recruitment and training of volunteers would "move away" from VISTA and become the responsibility of the national VISTA grantees. One ACTION official concluded simply that "Agency rules were suspended for these grants."

Another major component of ACTION's effort to redirect the VISTA program has been VISTA's adoption of new guidelines for use in selecting grantees or sponsors. Formerly, grantees were selected because of their ability to promote "community organizing." However, in the judgment of current ACTION administrators and VISTA managers, this preference often resulted in the choice of grantees who were "politically active" or "politically oriented" and whose modes of operation were sometimes "confrontational in nature." Present guidelines, by contrast, favor the selection of sponsors who "treat poor people as individuals" and whose efforts "discourage \* \* \* confrontation with local government." A major goal of the adoption of these guidelines is the "deletion of community organizing as a required emphasis" of the VISTA program.

OMB GUIDELINES CALL ATTENTION  
TO THE POSSIBILITY OF GRANTEEES'  
POLITICAL MISUSE OF FUNDS

The Office of Management and Budget, in an April 26 memo to heads of departments and agencies, directed the attention of Federal managers to the possibility of grantee organizations' misuse of funds for partisan or political purposes. OMB reminded Federal managers of the "bar against the use of Federal funds by grant or contract recipients \* \* \* for the purpose of attempting to influence legislation or appropriations \* \* \*" and of the "establishment and enforcement of standards to assure that no Federal funds are used \* \* \* for partisan or political advocacy purposes."

The memorandum concluded that "political advocacy groups" could continue to receive agency grants and contracts so long as "meticulous attention (is) paid to ensure that \* \* \* Federal funds are only used to fulfill specific grant and contract purposes." These guidelines were characterized as a "high Administration priority."

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of this survey was to identify all Federal funds awarded to the 17 organizations specified in your request during calendar 1977 through 1981 and to determine whether any of these funds were used for political purposes or for other prohibited activities.

We performed our survey in Washington, D.C., and in Chicago, Illinois, because 15 of the 17 specified organizations have their headquarters in these cities and because the Federal grant and contract award records and other pertinent governmental records

and statements regarding these organizations are maintained in these cities.

We contacted key Federal officials at the Departments of Health and Human Services, Education, Justice, Energy, Housing and Urban Development, and at ACTION in order to identify the Federal funds awarded to these organizations. Also, we contacted officials at two State of Illinois agencies--the Office of the Attorney General, Division of Charitable Trusts and Solicitation, and the Bureau of the Budget, Division of State Clearing House--and personnel at the Region V Federal Regional Council to corroborate information derived from Federal agency sources and to gain pertinent background information on the specified organizations.

Once we had identified all the Federal grants and contracts awarded to these organizations, we interviewed responsible agency program managers and inspector general personnel at the aforementioned Federal agencies in order to determine (1) these agencies' audit policies and plans regarding the identified grants and contracts and (2) the current status of agency programs through which the identified grants were awarded. Finally, we examined completed audit reports and other available reports and documents to determine if these sources of information revealed any instances of funds being used for political purposes or other prohibited activities.

We performed this review in accordance with our current "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions."