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Financial And Management
Activities Of The Jackson-Clay
Community Action
Group, Incorporated
Manchester, Kentucky B-171949

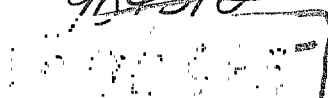
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Office of Economic Opportunity
Department of Health, Education,
and Welfare
Department of Labor

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

904312

JAN. 19. 1972





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

B-171949

2A Address

1 Dear Senator Cook:

1 This is our report on financial and management activities of the
2 Jackson-Clay Community Action Group, Incorporated, Manchester, 10087
3 Kentucky, which were funded by the Office of Economic Opportunity; 957
4 the Department of Labor; and the Office of Child Development, De- 9, 46
partment of Health, Education, and Welfare. Our review was made
pursuant to your request of February 18, 1971, and a request by
Congressman Tim Lee Carter.

Officials of the Office of Economic Opportunity; the Depart-
ment of Labor; the Department of Health, Education, and Welfare;
the Community Action Group; the accounting firm retained by the
Community Action Group; and other affected parties have not been
given an opportunity to formally examine and comment on the con-
tents of this report. Our findings, however, have been discussed
with officials of the Office of Economic Opportunity and the Commu-
nity Action Group.

As agreed with your office, we are sending copies of this report
to the Director, Office of Economic Opportunity, in order that he might
take action on the recommendations contained in the report. We are
also sending copies of this report to the Secretary of Labor and to the
Secretary of Health, Education, and Welfare.

Sincerely yours,

Comptroller General
of the United States

C1 The Honorable Marlow W. Cook
United States Senate



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

B-171949

Dear Dr. Carter:

This is our report on financial and management activities of the Jackson-Clay Community Action Group, Incorporated, Manchester, Kentucky, which were funded by the Office of Economic Opportunity; the Department of Labor; and the Office of Child Development, Department of Health, Education, and Welfare. Our review was made pursuant to your request of February 18, 1971, and a request by Senator Marlow W. Cook.

Officials of the Office of Economic Opportunity; the Department of Labor; the Department of Health, Education, and Welfare; the Community Action Group; the accounting firm retained by the Community Action Group; and other affected parties have not been given an opportunity to formally examine and comment on the contents of this report. Our findings, however, have been discussed with officials of the Office of Economic Opportunity and the Community Action Group.

As agreed with your office, we are sending copies of this report to the Director, Office of Economic Opportunity, in order that he might take action on the recommendations contained in the report. We are also sending copies of this report to the Secretary of Labor and to the Secretary of Health, Education, and Welfare.

Sincerely yours,

A handwritten signature in cursive script that reads "James B. Stacks".

Comptroller General
of the United States

The Honorable Tim Lee Carter
House of Representatives

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C o n t e n t s

	<u>Page</u>
DIGEST	1
CHAPTER	
1 INTRODUCTION	4
2 PROBLEMS AFFECTING PROGRAM OPERATIONS	6
3 DEFICIENCIES IN ADMINISTRATION OF GRANT FUNDS	9
Payroll and personnel matters	9
Travel	11
Consultant and contract services	12
Procurement	13
Accountable property	16
Non-Federal contributions	16
Other matters	17
Construction of child development centers	20
Audits by the certified public accounting firm	23
Conclusions	24
Recommendations	25
APPENDIX	
I Schedule of OEO funds granted to Jackson-Clay Community Action Group and related expenditures from October 1969 through March 1971	27
II Schedule of Department of Labor funds granted to Jackson-Clay Community Action Group for Operation Mainstream program and related expenditures from March 1970 through March 1971	28
III Schedule of Office of Child Development funds granted to Jackson-Clay Community Action Group for Head Start program and related expenditures from October 1969 through March 1971	29

ABBREVIATIONS

CPA certified public accountant
GAO General Accounting Office
OEO Office of Economic Opportunity

COMPTROLLER GENERAL'S
REPORT TO THE HONORABLE MARLOW W.
COOK, UNITED STATES SENATE
AND THE HONORABLE TIM LEE CARTER
HOUSE OF REPRESENTATIVES

FINANCIAL AND MANAGEMENT ACTIVITIES
OF THE JACKSON-CLAY COMMUNITY ACTION
GROUP, INCORPORATED, MANCHESTER,
KENTUCKY
Office of Economic Opportunity
Department of Health, Education, and
Welfare
Department of Labor B-171949

D I G E S T

WHY THE REVIEW WAS MADE

At the request of Senator Marlow W. Cook and Congressman Tim Lee Carter, the General Accounting Office (GAO) reviewed certain activities of the Jackson-Clay Community Action Group, Incorporated.

The Group conducted antipoverty programs in Jackson and Clay Counties, Kentucky. During program years 1970 and 1971, its activities were financed by grants totaling about \$1.9 million from the Office of Economic Opportunity (OEO); Department of Labor; and Office of Child Development, Department of Health, Education, and Welfare. (See p. 4.)

The Group participated in the OEO community organization, emergency food and medical services, and economic development programs; the Department of Labor Operation Mainstream program; and the Office of Child Development Head Start program. (See p. 5.)

GAO's review covered the Group's administration of grant funds and certain aspects of program management, but not the effectiveness of its antipoverty programs. (See p. 4.)

GAO discussed the findings of this review with officials of OEO and the Group. Officials of OEO; the Department of Labor; the Department of Health, Education, and Welfare; the Group; and other affected parties have not, however, been given an opportunity to formally examine and comment on the contents of this report.

FINDINGS AND CONCLUSIONS

In March 1971 the Group's Head Start and OEO programs were halted and Federal funds were cut off. The programs were terminated because of dissension among the board of directors and the staff and because of inefficient administration of grant funds. The Group appealed the termination decision to the Director, OEO. On October 15, 1971, OEO extended the grant for 3 months to permit the Group to demonstrate whether it could operate an effective and efficient program. OEO did not consider it necessary to rule on the termination appeal. (See p. 8.)

Inefficient administration of funds

There were deficiencies in adhering to OEO instructions by the Community Action Group regarding payroll and personnel matters (p. 9), travel (p. 11), consultant and contract services (p. 12), procurement (p. 13), accountable property (p. 16), non-Federal contributions (p. 16), and other matters (p. 17). Also GAO's review disclosed several cases of financial conflicts of interest. (See p. 14.)

Contrary to OEO instructions, the Group purchased for the Head Start program

- five vehicles costing about \$11,000 from the father of the director of the Head Start program;
- lumber and building supplies totaling about \$14,000 from a company owned by the chairman of the board of directors; and
- gas, oil, and maintenance services of about \$2,500 from a service station owned by the father of the director of the Head Start program and about \$900 from a service station partly owned by two employees. (See p. 14.)

GAO believes that these procedural deficiencies and the lack of adherence to OEO requirements should have been disclosed and reported to OEO for corrective action by the certified public accounting firm which conducted the annual audits. This firm had reported each year from 1967 to March 1971 that it had found no deficiencies in the administration of grant funds and expressed the opinion that the accounting system and internal controls were adequate. (See p. 23.)

Construction of child development centers

The Group constructed two child development centers and enlarged another center using Federal funds. The centers are basic structures built with cinder blocks. GAO noted that suitable buildings for the Head Start program were not available in the remote, economically depressed areas in the Appalachian Mountains where the facilities were built. (See p. 20.)

GAO notes that the Economic Opportunity Act of 1964, as amended, does not contain specific authority for the construction of these centers and believes a doubt exists as to OEO's position that its funds legally can be expended for such construction projects without specific authority. In the absence of clarifying legislation, however, GAO is not holding that OEO's administrative interpretation of its basic authority is erroneous. (See p. 20.)

Grantee actions

In May and June 1971 officials of the Community Action Group told GAO that they were taking corrective action and had requested technical assistance from the Kentucky State Office of Economic Opportunity, an OEO-funded organization. (See p. 9.)

In June 1971, with the help of the State Office, the Group had revised and adopted new procedures and forms. If these improvements had been implemented, the administration of grant funds would have been significantly improved. Because OEO and the Office of Child Development cut off program funds to the Group, however, the new procedures were not implemented. (See p. 9.)

RECOMMENDATIONS OR SUGGESTIONS

In the event that OEO refunds the Community Action Group or funds a successor community action agency in Jackson and Clay Counties, the Director, OEO, should:

1. Emphasize the need for the agency to establish an acceptable system of control over and administration of grant funds.
2. Provide surveillance over and assistance to the agency to help ensure that grant funds are expended properly.
3. Require OEO's Audit Division to test check the audit work performed by the accounting firm engaged by the agency for compliance with OEO instructions on audits of grantees. (See p. 25.)

CHAPTER 1

INTRODUCTION

The Jackson-Clay Community Action Group, Incorporated, a Community Action Agency, is responsible for the conduct of antipoverty programs in Jackson and Clay Counties, Kentucky, under the Economic Opportunity Act of 1964, as amended (42 U.S.C. 2782). The programs were funded by grants from the Office of Economic Opportunity; the Department of Labor; and the Office of Child Development, Department of Health, Education, and Welfare.

Our review, which covered the period October 1, 1969, through March 31, 1971, was performed pursuant to two congressional requests and was conducted primarily at the Community Action Group office in Manchester, Kentucky. It was directed toward evaluating the procedures and controls over expenditures and property and reviewing selected aspects of program management. We interviewed individuals associated with the Community Action Group, Federal agencies, the accounting firm retained by the Community Action Group, and other persons who--we had reason to believe--had information pertaining to the matters under review. We did not make an evaluation of the effectiveness of the Group's antipoverty programs.

The Community Action Group was incorporated by a group of private citizens on November 16, 1967, in the Commonwealth of Kentucky as a nonprofit organization to work toward the betterment of social, education, health, and economic conditions in Jackson and Clay Counties. The Group is governed by a board of directors which, as of February 1971, consisted of seven public officials, six representatives of private organizations, and 15 representatives of the poor.

According to the Bureau of the Census, 74 percent of the 6,819 families in Jackson and Clay Counties in 1960 had incomes of less than \$3,000. To assist the poor in Jackson and Clay Counties, the Community Action Group was authorized to expend Federal funds totaling about \$1.9 million for program years 1970 and 1971 to administer and operate the following programs and activities.

	Program year (note a)		
	<u>1970</u>	<u>1971</u>	<u>Total</u>
OEO program or activities:			
Administration	\$ 38,676	\$ 53,978	\$ 92,654
Community organization	77,737	54,450	132,187
Emergency food and medi- cal services	57,102	44,826	101,928
Economic development	<u>105,142</u>	<u>122,866</u>	<u>228,008</u>
Total	<u>\$278,657</u>	<u>\$ 276,120</u>	<u>\$ 554,777</u>
Department of Labor program:			
Operation Mainstream (note b)	\$313,099	\$ 515,000	\$ 828,099
Office of Child Develop- ment program:			
Head Start	<u>\$227,689</u>	<u>\$ 276,627</u>	<u>\$ 504,316</u>
Total	<u>\$819,445</u>	<u>\$1,067,747</u>	<u>\$1,887,192</u>

^aOEO and Head Start program years are from October 1 through September 30. The Operation Mainstream program year is from November 1 through October 31, except that the 1970 program year was from March 15, 1970, through October 31, 1970.

^bFor the period March 15, 1970, through October 31, 1970, the Community Action Group operated the Operation Mainstream program as a delegate agency of the Eastern Kentucky Concentrated Employment Program. The Community Action Group directly operated the program after October 31, 1970.

From October 1, 1969, through March 31, 1971, the period covered by our review, Federal funds--\$266,000 from OEO, \$507,000 from the Department of Labor, and \$285,000 from the Office of Child Development, a total of about \$1.1 million--had been expended by the Community Action Group. (See apps. I, II, and III.) Non-Federal contributions totaling about \$130,000 had also been recorded.

CHAPTER 2

PROBLEMS AFFECTING PROGRAM OPERATIONS

OEO suspended and later terminated financial assistance to the Jackson-Clay Community Action Group because of (1) dissension among the board of directors and the staff and (2) inefficient administration of grant funds. The Office of Child Development also terminated financial assistance as the agency was the sponsor for the Head Start program. Our review of the agency's administration of grant funds is discussed in chapter 3. Our comments on the dissension among the board of directors and the resulting problems follow.

Internal dissension among the board of directors and the staff of the Community Action Group surfaced at a February 11, 1971, board meeting when the board members voted to discharge the executive director and appointed an acting executive director. The executive director, however, refused to recognize that he was discharged, claiming that the board meeting was not held in accordance with the agency's bylaws.

On February 12, 1971, an official of the Community Action Group obtained a temporary injunction from the Clay County circuit court restraining the executive director from exercising his authority. The executive director appealed the injunction to the Court of Appeals of the Commonwealth of Kentucky. While the injunction was under appeal, the board, at a meeting held on February 18, 1971, voted to reinstate the executive director and gave him a vote of confidence. On March 5, 1971, however, OEO's Atlanta Regional Office temporarily suspended financial assistance to the agency because the board had not furnished data to show that the meeting to reinstate the director was properly called and that the board members had been notified of the time and place of the board meeting. OEO also requested the agency to submit a plan outlining how it proposed to conduct its antipoverty programs if financial assistance were reinstated. OEO permitted the agency during the suspension period to use OEO funds to pay the salaries of an acting executive director, three program directors, and two members of the clerical staff to prepare the plan.

On March 9, 1971, the court of appeals declared that the discharge of the executive director was invalid and ineffective and dissolved the circuit court's temporary injunction against the executive director.

The regularly scheduled board meeting of March 11, 1971, was canceled by the vice chairman of the board and the executive director. A meeting took place nonetheless, and the executive director was again fired and an acting executive director appointed. This meeting was declared illegal, ineffectual, and null and void by the judge of the Clay County circuit court on March 12, 1971. Three days later, five members of the board resigned and the executive director fired the directors of the Head Start and the OEO economic development programs. At that time both the OEO and Head Start programs were so disrupted that the programs were no longer operating effectively.

On March 26, 1971, OEO's Atlanta Regional Office terminated assistance to the Community Action Group because grant funds had been administered in an inefficient manner and because serious and persistent violations of OEO administration and program requirements had resulted in an inadequate level of services and benefits to the poor.

The Atlanta Regional Office stated that the board (1) had not complied with the terms of the OEO suspension order requiring the submission of a workable plan for conducting antipoverty programs, (2) had not shown that it was able to achieve the mission of the Community Action Agency because of inconsistent, disruptive, and irresponsible actions by the board and its staff, (3) had not submitted to OEO a plan to organize all low-income areas in the two counties or furnished information about the agency's economic development projects as required by the special conditions of the OEO grant, and (4) had made purchases from a company owned by the chairman of the board, contrary to the conflict-of-interest provisions of OEO instructions.

As the Community Action Group was the sponsoring agency for the Head Start program, the Office of Child Development also suspended assistance for that program on March 31, 1971.

The Community Action Group appealed the OEO decision to terminate assistance and a hearing was held on June 4, 1971, at the OEO Regional Office in Atlanta, Georgia.

On July 22, 1971, OEO's Atlanta Regional Office ruled on the appeal and affirmed the termination on essentially the same basis as its March 26, 1971, determination. This ruling also terminated the Head Start program. OEO informed the Community Action Group that it had apprised the chief elected officials of Jackson and Clay Counties that it would recognize any proper public or private nonprofit agencies which they designated as a successor to the Community Action Group.

OEO permitted the agency to continue to use OEO funds to pay the salary of the executive director, his secretary, and the bookkeeper while appealing the termination to the Director, OEO. The executive director on August 6, 1971, appealed the termination decision to the Director, OEO. On October 15, 1971, the OEO Atlanta Regional Director informed the Director, OEO, that he had extended the grant to January 15, 1972, to permit the Group to demonstrate--over a 3-month period--whether it could operate an effective and efficient Community Action Program which would comply with all OEO regulations and directives and in accordance with grant conditions. The Regional Director stated that there was no need to consider the termination appeal.

The Department of Labor did not terminate its assistance for the Operation Mainstream program, which as of August 11, 1971, was still operational.

CHAPTER 3

DEFICIENCIES IN

ADMINISTRATION OF GRANT FUNDS

We noted that, in administering grant funds, Jackson-Clay Community Action Group was not fully adhering to OEO policies and instructions relating to personnel, payroll, travel, consultant and contract services, procurement, financial conflicts of interest, accountable property, non-Federal contributions, and other matters.

In our view many of the procedural deficiencies and lack of adherence to OEO requirements should have been found and, as required, reported to OEO for corrective action by the certified public accounting firm (CPA) that was engaged by the Community Action Group to perform annual audits of its activities as required by the Economic Opportunity Act. The CPA reported each year between 1967 and 1971 that he found no deficiencies in administration of grant funds and expressed the opinion that the accounting system and internal controls were adequate.

In May and June 1971 we discussed our findings with officials of the Community Action Group who stated that they were taking corrective action and had sought technical assistance from the Kentucky State Office of Economic Opportunity, an OEO-funded organization.

In June 1971 we noted that, with the help of the State Office of Economic Opportunity, the agency had revised and adopted new procedures and forms, which, upon implementation, could significantly improve the administration of grant funds. Because OEO and the Office of Child Development terminated financial assistance to the Community Action Group, however, the new procedures were not implemented.

PAYROLL AND PERSONNEL MATTERS

Payrolls and related costs, including compensation to Operation Mainstream enrollees, amounted to about \$824,000

or 75 percent of the approximately \$1.1 million of grant funds expended by the Community Action Group during the 18-month period covered by our review.

Three bookkeepers maintained separate personnel and payroll records for employees paid with (1) Department of Labor funds, (2) OEO funds, and (3) Office of Child Development funds. We reviewed Department of Labor-funded payrolls totaling \$64,480, OEO-funded payrolls totaling \$19,341, and Office of Child Development-funded payrolls totaling \$29,522.

Our tests showed that personnel and payroll records and procedures relating to employees paid with Office of Child Development funds were generally adequate but that there were some discrepancies in the personnel and payroll records for employees and Operation Mainstream enrollees paid with Department of Labor and OEO funds. These discrepancies are discussed below.

OEO instructions require grantees to maintain (1) a record of all personnel actions, (2) time and attendance records to substantiate payroll costs, and (3) leave records for each employee showing leave taken and balances available for annual, sick, and other types of leave.

During the 18-month period of our review, 24 employees and enrollees were hired and 19 were terminated. Because personnel files were incomplete, we were unable to determine whether (1) the 24 employees and enrollees were paid at the authorized rates and (2) compensation was paid solely for the period that employees and enrollees were actually employed.

We noted that 17 employees and enrollees were overpaid a total of \$308 because (1) errors were made in the computation of biweekly pay for four employees that resulted in \$229 of overpayments and (2) overpayments of \$79 were made to 13 enrollees erroneously or for work in excess of 80 hours in a biweekly pay period although the Department of Labor contract precludes payment for more than 80 hours.

We reviewed the time and attendance reports filed for about 140 employees and enrollees during four biweekly pay periods and noted the following weaknesses in the agency's maintenance of the reports: (1) 12 reports were not

approved by supervisors, (2) supervisory personnel approved five of their own reports, and (3) enrollees in 64 instances had not signed in or out on their time and attendance reports to show when they started or left work.

We examined the leave records for 10 OEO-funded employees and found that nine of the records contained numerous minor errors in recording leave taken and in computing leave balances.

TRAVEL

The Community Action Group reported expenditures of about \$53,000 for travel--about 5 percent of total expenditures--from October 1, 1969, through March 31, 1971. About \$13,000 of the \$53,000 was for travel outside the Community Action Group's two-county area. We examined travel expenditures totaling about \$14,000.

OEO instructions require that (1) travel by employees of grantees be authorized, (2) travel vouchers be fully documented, and (3) payments for travel be made in accordance with the Standardized Government Travel Regulations.

We noted that the agency had not followed the Standardized Government Travel Regulations and had not established procedures for authorizing travel in advance, accounting for travel advances, and auditing claims for travel reimbursements prior to payment. The following examples illustrate questionable travel payments and deficiencies in procedures for controlling travel expenses.

1. Eight of the 55 travel vouchers for out-of-town travel that we examined did not show the period of travel--including times of departure and return--which is the basis for computing per diem. We, therefore, were unable to determine in these cases whether per diem was computed correctly.
2. According to Government travel regulations, per diem covers expenses of meals and lodging. Per diem and the cost of meals and lodging were paid to three employees. The overpayment amounted to \$45.

3. Per diem was paid to two employees for travel of less than 10 hours with no overnight stay involved which is contrary to Government travel regulations. The overpayment amounted to \$63.
4. Many of the travel vouchers bore the stamped signature of the executive director that denoted approval for reimbursement. As discussed on page 18, the controls over signature stamps were inadequate.
5. Travel advances totaling \$477 were given to four employees or board members. There was no supporting documentation in the files to show that the travel for which the advances were made was performed.

CONSULTANT AND CONTRACT SERVICES

The Community Action Group recorded expenditures for consultant and contract services of about \$15,000, or 1 percent of total expenditures from October 1, 1969, through March 31, 1971. Most of the expenditures were for medical and dental services provided to children enrolled in the Head Start program and for audits by the CPA.

OEO suggests in its Community Action Program Management Guide that grantees when procuring professional or technical services use either a written commitment or an OEO standard form contract and that such agreements specifically set out the nature and terms of service to be provided.

Our review showed that agreements or contracts were generally lacking and that documentation indicating the basis for making most of the payments for consultant and contract services was not on file.

As of March 31, 1971, the agency had obtained professional services on 40 occasions but we found only three instances where formal agreements had been entered into. Two of the three agreements, however, were inadequate because they did not specify the nature of the services and the basis for compensation.

PROCUREMENT

The Community Action Group recorded procurements of supplies, equipment, and other items in the amount of about \$148,000, or 13 percent of the grant funds expended from October 1, 1969, through March 31, 1971. We reviewed 364 procurement transactions totaling about \$100,000.

We found that the agency did not have an effective purchasing system because (1) basic documents such as requisitions, prenumbered purchase orders, and receiving reports were not used, although for smaller items this may not be necessary and (2) there was little or no separation of duties--the finance officer initiated a purchase, made the purchase, wrote the check, paid the vendor, recorded the entry, and received the item.

We believe that duties and functions should be segregated to the extent practicable so as to provide independent internal checks on performance and to minimize opportunities for carrying out unauthorized or otherwise irregular acts.

For each of the 364 procurement transactions that we examined, we found that one or more of the following discrepancies existed.

- Large purchases were made without approved purchase orders or evidence of approval by responsible agency officials.
- Purchase orders were not on file in support of all recorded expenditures, and the few that were on file were frequently incomplete.
- Vendor's invoices were not on file.
- Payments were made without evidence that goods and/or services were received or were for authorized purposes.
- Preaudits of billings were not made--we identified four overpayments totaling about \$312 resulting from making duplicate payments and mathematical errors.

- State sales taxes were paid on purchased goods although the grantee as a nonprofit organization is tax exempt.

Further, because of the lack of adequate documentation regarding the procurement for agency vehicles of gasoline, oil, and maintenance services, totaling about \$6,000, we were unable to satisfy ourselves that the goods were received or services rendered or that the expenditures were for authorized purposes. We found that:

- Because vehicle log books were not maintained and because vehicle identification such as license plate numbers were not shown on charge tickets, we were unable to determine that payments for gasoline, oil, and maintenance services were for agency vehicles.
- Twelve payments totaling \$460 were made to gasoline stations although charge tickets were not attached to the payment voucher.

Questionable procurement practices

The Economic Opportunity Act of 1964, as amended, provides that each Community Action Agency adopt rules designed to establish specific standards to guard against financial conflicts of interest and requires that the Director, OEO, prescribe such rules and regulations to supplement the above requirement. In November 1967 OEO issued instructions concerning conflicts of interest in connection with the purchase of goods, space, and services for use in OEO programs. The instructions provide that grantees are generally prohibited from purchasing goods, space, or services from employees or members of their immediate family and from members of the board of directors. These instructions are also applicable to Head Start programs administered by Community Action Agencies.

For the 18-month period covered by our review, we noted situations in which purchases totaling about \$28,000 were made by the agency that were contrary to OEO instructions, as follows:

1. Five vehicles for the Head Start program costing about \$11,000 were purchased from an automobile

dealership owned by the father of the director of the agency's Head Start program. The director of the Head Start program informed us that the vehicles were purchased under competitive conditions. We evaluated the method of securing such competition, however, and found it to be questionable. Bids were solicited twice for two separate procurements. For each procurement, a bid was received from the father of the Head Start program director and from another automobile dealer. We were informed by Head Start officials, however, that in each case the bid from the other dealer was opened about 3 days prior to the bid from the father of the Head Start program director. The father's bid in each case was about \$100 lower than the bid from the other dealer and the sales were awarded to him.

2. Purchases of lumber and building supplies totaling about \$14,000 were made at a lumber company owned by the chairman of the board of directors.
3. Purchases of gas, oil, and maintenance services of about \$2,500 were made at a service station owned by the father of the director of the Head Start program and such purchases of about \$900 at a service station partly owned by two employees.

ACCOUNTABLE PROPERTY

OEO's guidelines require grantees to maintain property record cards on all nonexpendable property purchased and to take periodic inventories to verify that the property is on hand.

We found that the accounting and physical control over property was inadequate because (1) asset accounts for non-expendable items were not maintained in the general ledger--the costs of accountable property purchased with OEO and Office of Child Development funds were charged to expense accounts such as supplies and travel and (2) property record cards were inaccurate as to the cost of the property, were incomplete as to items and quantity, and did not identify items by property numbers.

Agency officials told us that a physical inventory had been taken during the month of October 1970, but they could not produce documentation to this effect.

NON-FEDERAL CONTRIBUTIONS

Authorizing legislation requires grantees to provide non-Federal contributions of at least 20 percent of total project costs, either in cash or in-kind, unless a waiver is obtained from OEO. The act requires also that grantees maintain this percentage relationship during the entire period of the grant. OEO's guidelines for grantee accounting provide that non-Federal contributions must be accounted for in essentially the same manner as Federal contributions; that is, they must be recorded in the books on a monthly basis and must be adequately supported by documentation.

For the 18-month period covered by our review, the Community Action Group recorded non-Federal contributions of about \$130,000--mostly contributed as in-kind personnel services. Of this amount, \$54,000 was recorded for the Head Start program of the Office of Child Development and \$76,000 for the Operation Mainstream program of the Department of Labor.

The agency received a waiver from OEO reducing its non-Federal share requirement for OEO programs to about \$39,000

for the two program years ended September 30, 1971. The agency, however, as of March 31, 1971, had not documented its OEO non-Federal contributions; agency officials informed us that the non-Federal share was met through the transfer of excess Head Start program contributions, donated building space, and contributed personnel services.

We reviewed the \$54,000 recorded non-Federal share for the Head Start program. We questioned claims such as (1) rental of \$2,800 for two child development centers on the basis that centers were constructed with Federal funds (see p. 20), (2) rental of \$14,000 a year for one child development center donated by the Clay County School Board, which appeared excessive because the building was in very poor condition, and (3) rental for donated space which seemed to be erroneously understated by \$3,000. Officials of the Community Action Group's Head Start program agreed that the rental of \$14,000 was significantly overvalued.

We also noted that donated personnel services of about \$1,400 for the Head Start program that could have been claimed were not claimed.

Our test of non-Federal contributions of \$11,700 for donated personnel services recorded for the Operation Mainstream program revealed that (1) about \$1,800 was claimed twice and (2) about \$1,600 of services was donated by a Community Action Group employee. We also noted that contributed personnel services of about \$3,200 that could have been claimed were not claimed.

OTHER MATTERS

Misclassification of expenditures

OEO guidelines list and define accounts to be used to record financial transactions. Expenditures properly classified into these accounts can be summarized in financial statements which should be useful to agency officials in managing the programs and preparing budget requests. These financial statements can also be used by OEO and the Office of Child Development to administer grants and to meet their financial reporting responsibility to the Congress and to other Federal agencies.

Misclassifications of OEO and Office of Child Development grant fund expenditures occurred with such frequency and involved such significant amounts as to render the financial statements which were prepared of little use for managing and administering the OEO and Office of Child Development programs. For example, the expenditure of \$1,761 for automobile insurance was charged as a personnel expense.

Use of Community Action Group vehicles

At the time of our review, the Community Action Group had about 10 servicable vehicles for use by its employees in conducting official business. The agency, however, had not issued guidelines on the use of its vehicles or maintained utilization records. We were unable to determine whether there was maximum use of the available agency vehicles to reduce the use of personally owned vehicles that would necessitate reimbursement for mileage. During the 18-month period covered by our review, the agency paid about \$22,000 to its employees for the use of privately owned vehicles.

For example, we noted that one administrative employee was paid mileage costs of about \$2,000 for 20,000 miles driven during the 18-month period of our review. The employee made over 90 round trips during the period covered by our review to points in Jackson County, Kentucky, about 30 miles from Manchester. This employee told us that he made these trips for the purpose of conducting business with a bank, such as depositing checks and picking up bank statements, and for other purposes. We noted that vehicles were available for use of the agency's administrative staff in conducting official business. We could not determine, however, whether such vehicles had been available and could have been used for the trips to avoid payment for use of the employee's privately owned vehicle.

Control over signature stamps

Community Action Group check-signing procedures require checks to be signed by one of two designated staff members and one of two designated board members. Our review showed that, in many instances, the checks were rubber-stamped with the facsimile signatures of the executive director and the

chairman of the board, both of whom were authorized to sign the checks.

In addition to the use of the executive director's stamp in preparing checks, we noted that it was also used to signify approval of time and attendance reports, leave requests, and payment vouchers.

We inquired into the physical control over these stamps and found that both stamps were accessible to the executive director, the finance officer, and other employees in the office. The executive director informed us in May 1971 that his rubber stamp was no longer being used.

CONSTRUCTION OF CHILD DEVELOPMENT CENTERS

The Community Action Group constructed two child development centers and substantially enlarged another center for use in its Head Start program. Material and supplies for the construction and enlargement of the centers were purchased with Federal grant funds, and Operations Mainstream enrollees performed most of the work.

The Economic Opportunity Act of 1964, as amended, does not contain specific authority for the construction and enlargement of these child development centers. Subsection 602(m) of the act does, however, authorize the Director, OEO, to rent and make needed repairs, alterations, and improvements to rented buildings. Community Action Group officials informed us that, if they were going to operate a Head Start program in the remote areas of the Appalachian Mountains, they had no feasible alternative to building the centers.

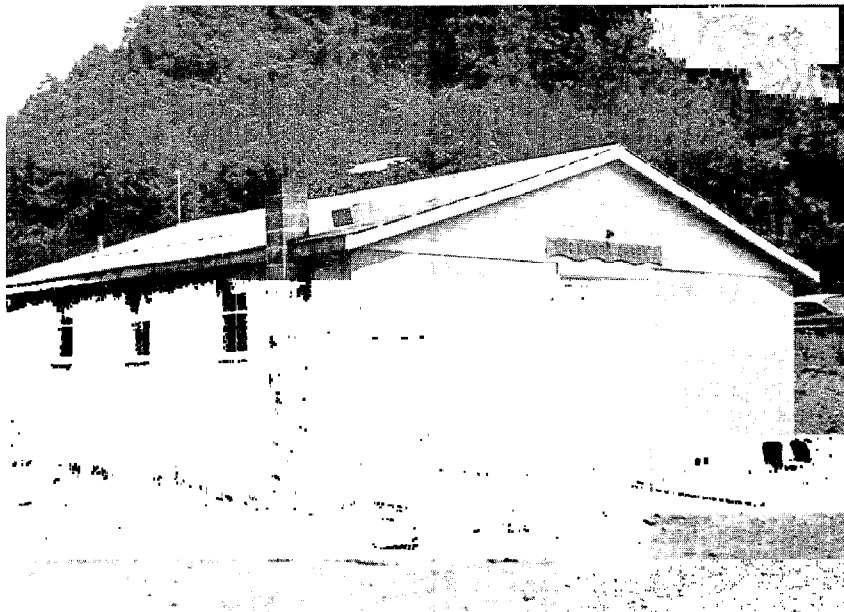
Because material and local costs associated with the construction and enlargement of the centers were not identified as construction costs in the accounting records, we could not, without the expenditure of considerable audit effort, reasonably determine the amount of Federal funds spent on such construction.

The two new centers are rather basic structures built with cinder blocks. Pictures of the two centers are shown on the next page. The three centers are located in economically depressed remote areas in the Appalachian Mountains, and no other suitable buildings for the Head Start program were available.

Although, in our opinion, a doubt exists as to OEO's position that its funds legally can be expended for construction projects without specific authority, our Office would not be warranted, in the absence of clarifying legislation, in holding that OEO's administrative interpretation of its basic authority is erroneous.



CHILD DEVELOPMENT CENTER
GRANNY'S BRANCH, KENTUCKY



CHILD DEVELOPMENT CENTER
LOCKARD'S CREEK, KENTUCKY

AUDITS BY THE CERTIFIED
PUBLIC ACCOUNTING FIRM

The Economic Opportunity Act provides that an audit by a certified public accountant or duly licensed accountant be made at least once a year of grants funded under title II of the act. OEO has published a number of manuals, instructions, and guidelines applicable to Community Action Agencies which are designed to promote adequate internal controls and accounting systems and to provide for periodic financial audits by licensed accountants.

The OEO Audit Division, Atlanta Regional Office, is responsible for reviewing reports on audits of the Community Action Group's activities and for preparing a letter report to the Director of the OEO Atlanta Regional Office, summarizing the results of the audits. Where weaknesses are disclosed in the grantee's operations, the Audit Division in its report generally recommends that the weaknesses be corrected. In cases where the grantee's accounting systems and internal controls do not meet OEO standards, the Audit Division generally recommends that the regional director consider suspending the grant until the OEO standards are met.

The OEO regional director is responsible for ensuring that the grantee corrects the deficiencies disclosed in the Audit Division report. The regional director may impose special conditions on the grantee and, if warranted, may suspend funding of the grantee.

The OEO and Office of Child Development grants--both funded under title II--were audited by the same CPA firm from 1967 to March 1971. During this period the CPA firm in its audit report did not question any costs or take exception to the accounting system or internal controls or any other matters concerning the administration of grant funds.

We discussed this matter with the principal of the CPA firm and the firm's employee who performed the audit for the program year ended September 30, 1970. We examined the records maintained by the firm to ascertain the scope of work and the basis for the unqualified opinion on the financial statements for that program year.

The CPA firm's records consisted of several bank reconciliations and schedules showing expenditures of grant funds and showed no other evidence of the scope of the work performed.

We examined the bank reconciliations prepared by the CPA firm and found that several were in error. Concerning the schedule showing the expenditures of grant funds, the employee who performed the audit stated that he tested financial transactions but did not document his work. He also said that none of the tests disclosed any questionable expenditures and that, if any had been found, they would have been discussed in the report.

There was insufficient evidence that the CPA firm had reviewed the agency's internal controls or its compliance with OEO financial management guidelines. OEO instructions require that an audit determination be made as to whether Federal funds have been controlled and expended, and non-Federal share contributions have been valued, in accordance with grant conditions and other requirements.

We believe that, if the OEO instructions had been adequately implemented in this case, the CPA audits would have disclosed the procedural deficiencies and the lack of adherence to OEO requirements. The CPA audit is important because OEO relies on the CPA firm's report as an indication of how a Community Action Agency is administering its grant funds and, as the basis for requiring grantees to take the necessary corrective action, or if warranted, suspension of the grant.

Also the agency officials and the board of directors rely on the CPA firm's work in much the same way that OEO does. The executive director told us that he had assumed that the administration of grant funds by his financial and accounting personnel was adequate because of the satisfactory reports received from the CPA firm.

CONCLUSIONS

Weaknesses in the control over the expenditure of grant funds by the Community Action Group indicated a need for better financial management practices and greater efforts toward

compliance with Federal grant requirements. Also the agency was not fully adhering to OEO instructions relating to non-Federal contributions and financial conflicts of interest.

We believe that an independent audit made in accordance with OEO instructions would have disclosed the administrative weaknesses to OEO and the grantee so that corrective action could have been taken.

RECOMMENDATIONS

Should OEO refund the Community Action Group or fund a successor Community Action Agency in Jackson and Clay Counties, we recommend that the Director, OEO:

1. Emphasize the need for the agency to establish an acceptable system of control over and administration of grant funds.
2. Provide surveillance over and assistance to the agency to help ensure that grant funds are expended properly.
3. Require OEO's Audit Division to test check the audit work performed by the accounting firm engaged by the agency for compliance with OEO instructions on audits of grantees.

SCHEDULE OF OEO FUNDS GRANTED TO
 JACKSON-CLAY COMMUNITY ACTION GROUP
 AND RELATED EXPENDITURES FROM OCTOBER 1969
 THROUGH MARCH 1971

	<u>Program years</u>		
	<u>Total</u>	<u>1970</u>	<u>1971</u>
OEO FUNDS GRANTED (note a)	<u>\$554,777^b</u>	<u>\$278,657</u>	<u>\$276,120</u>
EXPENDITURES INCURRED (note c):			
Salaries and wages	\$140,733	\$ 88,983	\$ 51,750
Travel	25,577	18,367	7,210
Consultant and contract services	1,300	(d)	1,300
Space costs and rental	3,828	1,903	1,925
Consumable supplies	8,129	5,949	2,180
Equipment	1,443	944	499
Other costs	70,469	54,057	16,412
Enterprise development	<u>14,582</u>	<u>14,582^e</u>	-
Total expenditures incurred	<u>\$266,061</u>	<u>\$184,785</u>	<u>\$ 81,276</u>

^aIncludes prior years' unexpended funds.

^bDoes not include \$9,550 received from OEO for the VISTA program.

^cThe expenditures are those recorded in the Community Action Group's records. However, as discussed in this report, certain expenditures were improperly classified and the breakdown by purpose of expenditure is not accurate.

^dExpenditures for consultant and professional services were recorded as salaries in the 1970 program year.

^eExpenditures for enterprise development include such costs as travel, telephone expenses, and supplies.

APPENDIX II

SCHEDULE OF DEPARTMENT OF LABOR

FUNDS GRANTED TO JACKSON-CLAY COMMUNITY ACTION

GROUP FOR OPERATION MAINSTREAM PROGRAM AND

RELATED EXPENDITURES FROM MARCH 1970

THROUGH MARCH 1971

	<u>Program years</u>		
	<u>Total</u>	<u>1970</u>	<u>1971</u>
DEPARTMENT OF LABOR FUNDS AWARDED (note a)	<u>\$828,099</u>	<u>\$313,099</u>	<u>\$515,000</u>
EXPENDITURES INCURRED:			
Staff salaries and wages	\$ 56,867	\$ 31,597	\$ 25,270
Enrollee wages	434,170	258,079	176,091
Travel	14,226	10,094	4,132
Equipment	462	335	127
Space cost and rental	175	75	100
Other costs	<u>780</u>	<u>436</u>	<u>344</u>
Total expenditures incurred	<u>\$506,680</u>	<u>\$300,616</u>	<u>\$206,064</u>

^aIncludes prior years' unexpended funds.

SCHEDULE OF OFFICE OF CHILD DEVELOPMENT FUNDS

GRANTED TO JACKSON-CLAY COMMUNITY

ACTION GROUP FOR HEAD START

PROGRAM AND RELATED EXPENDITURES

FROM OCTOBER 1969 THROUGH MARCH 1971

	Program years		
	<u>Total</u>	<u>1970</u>	<u>1971</u>
OFFICE OF CHILD DEVELOPMENT FUNDS AWARDED (note a)	<u>\$504,316</u>	<u>\$227,689</u>	<u>\$276,627</u>
EXPENDITURES INCURRED (note b):			
Salaries and wages	\$191,889	\$106,948	\$ 84,941
Travel	13,046	7,780	5,266
Consultant and contract services	13,617	9,701	3,916
Equipment	41,796	38,704	3,092
Consumable supplies	7,900	5,799	2,101
Other costs	<u>16,604</u>	<u>7,460</u>	<u>9,144</u>
Total expenditures in- curred	<u>\$284,852</u>	<u>\$176,392</u>	<u>\$108,460</u>

^aIncludes prior years' unexpended funds.

^bThe expenditures are those recorded in the Group's records. As discussed in this report, however, certain expenditure were improperly classified and the breakdown by purpose of expenditure is not accurate.