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WASHINGTON D.C. 20548

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B-202760

MAY 6, 1981

The Honorable Cardiss Collins  
Chairwoman, Subcommittee on Manpower  
and Housing  
Committee on Government Operations  
House of Representatives



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Dear Chairwoman:

Subject: CSA's Followup to Problems at the Nicholas County  
Community Action Association, West Virginia  
(AFMD-81-48)

In response to your June 5, 1980, letter, we have reviewed the effectiveness of the Community Services Administration's (CSA's) efforts to correct management and financial problems at the Nicholas County Community Action Association, West Virginia. A CSA investigation completed in January 1978 reported that, among other things, the Association

- was maintaining and using an unaudited, income-producing account (which by October 1978 had a fund balance of about \$139,500) without the complete knowledge, approval, or control of its board of directors;
- employed an Executive Director and another staff member who were receiving salaries from multiple sources in violation of CSA regulations;
- used questionable bidding and procurement practices for large capital expenditures;
- was making loans of funds and property that were contrary to CSA regulations;
- had a board of directors that was "not viable" and served "only as a rubber stamp for the executive director's will"; and
- had its Department of Labor employment program terminated because of a "lack of fiscal controls, falsified documents and the use of ineligible enrollees."

OBJECTIVES, SCOPE, AND METHODOLOGY

We directed our work toward answering the questions contained in your letter:

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- How did the actions directed by the cognizant CSA regional office respond to the findings of the 1978 CSA investigation report, and what changes did these actions cause in the grantee's operation?
- Have further abuses occurred since the completion of the CSA investigation?
- Is there a need for further action by CSA to correct existing problems and prevent them from recurring?
- What weaknesses within CSA allowed a delayed and inadequate response to be made to this report?

We reviewed the investigation report prepared by CSA, pertinent related correspondence, and the action taken by CSA and other Federal and State agencies to resolve the problems identified at the Association. We also examined applicable Association audit reports and performed a limited review of the Association's accounting procedures to determine if similar and/or new problems existed. We interviewed key officials of CSA, the Department of Labor, the State of West Virginia, and the Association to determine their role in correcting the problems identified at the Association. We briefed your staff in January 1981 on the results of our audit work on this assignment.

#### FINDINGS

With regard to your first question, we found that the actions CSA Region III directed the Association to take were untimely and did not substantially change the grantee's operations. CSA, after learning in November 1978 that the Justice Department would not initiate criminal prosecution on matters disclosed by CSA's investigation, let the situation continue unremedied for 6 months until it determined it had authority over the Association's income-producing account. Then in June 1979, Region III wrote the board of directors and advised it to take specific actions to resolve problems disclosed by the investigation even though the investigation report had shown that the Association's board of directors was part of the problem.

A Region III field representative visited the Association in March 1980 and wrote a trip report showing that (1) the Association's board continued to be ineffectual, (2) the income-producing account still was being used, and (3) the Association had not consolidated its accounts. Yet, this evidence of little change in the fiscal operations of the Association was not communicated to the Region III financial branch officials responsible for financial management oversight of the region's grantees because the region had no procedures to provide for the exchange of this information.

At May 1980 hearings before the Subcommittee on Manpower and Housing, House Committee on Government Operations, the acting director of CSA admitted that CSA had not taken adequate corrective action in response to the investigative findings. Moreover, on September 24, 1980, Region III closed its audit of the income-producing account and, in effect, wrote off questionable expenditures. In October 1980, we briefed Region III officials about continuing financial management weaknesses at the Association. As a result, Region III decided to demand that the Association account for questionable expenditures totaling \$139,500. In addition, Region III notified the Association that it was subtracting this amount from the Association's 1981 funding, leaving the Association with a CSA grant of \$10,500. 1/

Region III also took subsequent action as a result of our audit to notify State officials that the State may have erroneously written off questioned costs related to the Association. These questioned costs involved the employment program the State administered for the Department of Labor and included multiple salaries paid to the Association's staff. State officials told us that they intend to initiate action to recover the funds.

As to your second question, we found no evidence that new abuses have occurred. However, financial management weaknesses related to the problems uncovered by the CSA investigation still exist. These weaknesses include (1) the board of directors not effectively carrying out its responsibilities of overseeing the management of the Association and (2) the Association not having implemented a simple, centralized accounting system that provides effective budgetary and inventory control.

In response to the third question, we believe that to correct the Association's current problems and prevent any recurrence, Region III needs to take further action to see that the Association's board of directors is fully cognizant of its management responsibilities as well as informing the board of the importance of fulfilling those responsibilities. In addition, to make the board more effective and better informed, Region III should insist that the Association implement a more simplified, centralized accounting system that generates meaningful management information reports. If this is done, both the board of directors and Region III will know what the Association is doing with its funds. The present decentralized system makes a precise determination of all funding sources and expenditures extremely difficult.

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1/Funding for the Association in fiscal 1979 totaled over \$600,000, of which \$134,000 was provided by CSA. Total funding information for fiscal 1980 was not available at the time we completed our audit work at the Association.

We believe, in answer to your final question, that the weaknesses within CSA that delayed a response to the investigation can be traced to Region III's indecisiveness regarding the authority it had over the Association's income-producing account. Then it made the Association's board accountable for resolving issues raised by the investigation, without subsequently seeing that corrective action was taken. In addition, field visits to the Association in March 1980 disclosed continuing problems that were not effectively communicated within Region III to the staff with financial oversight responsibility for the Association.

Although CSA's Region III was directly responsible for seeing that problems identified by the 1978 investigation were resolved, CSA headquarters also shares some responsibility for the unacceptable response to the investigation. Contending that the Association was an extreme example of inadequate followup, the director of CSA's regional operations attributed the inadequacy, in part, to headquarters' unquestioning acceptance of what Region III said was being done by the Association to respond to the investigation findings.

In discussing these matters with CSA officials, CSA Region III's director stated that community action agency officials and boards of directors are often inexperienced in public accounting matters and generally find CSA regulations confusing. Region III officials also pointed out that since CSA does not directly manage any grantee, it must rely on the willingness of the board of directors and grantee officials to implement and enforce CSA fiscal requirements. If the grantee or its board fails to comply with such requirements, CSA officials believe they have only three options: (1) refuse to continue funding the grantee, (2) suspend or disallow expenditures of funds, or (3) withdraw a grantee's status as a community action agency. CSA naturally is reluctant to invoke such actions because of the effect on the people served by the community action agency.

CSA officials, at Region III and at headquarters, also told us that as long as audit reports they receive cover only CSA grant funds, they cannot assess how well a community action agency is managing CSA funds in relation to the total funding received. In this regard, on December 8, 1980, the Office of Management and Budget designated CSA as the cognizant audit agency for single audits of private nonprofit community action agencies. Single audits provide a coordinated, comprehensive accounting of multi-funded organizations. This practice ensures that a single audit is made of an entire organization rather than many discrete audits being made of individual grants or programs. Such audits should, for the first time, give CSA, other donor agencies, and community action agencies a complete picture of financial transactions, which is an absolutely indispensable part of effective fiscal monitoring.

CONCLUSIONS AND RECOMMENDATIONS

We believe that decisive action, effective monitoring, and internal communication can lead to swifter correction of grantee problems, such as those of the Association. To correct the current problems at the Association, we believe that Region III needs to take further action, particularly regarding the responsibilities of the board of directors and the implementation of a more simplified, centralized accounting system. Region III also needs to provide for the exchange of information gathered during grantee monitoring visits among all its staff responsible for overseeing that grantee's operations. In addition, CSA headquarters needs to follow up on the actions taken by Region III to correct the problems of the Association, and to improve its grant monitoring and internal communication procedures.

We recommend that the Director of the Community Services Administration:

- Require Region III to take the necessary action needed to correct the current problems at the Association. Such action should include (1) seeing that the Association's board of directors is fully cognizant of its management responsibilities, (2) informing the board of the importance of fulfilling those responsibilities, and (3) insisting that, as a requirement for continued funding, the Association implement a more simplified, centralized accounting system.
- Require Region III to improve its grant monitoring and internal communication procedures to provide for the exchange of information gathered during site visits to grantees.
- Follow up within 6 months on the action taken by Region III to correct the problems at the Association, and to improve its grant monitoring and internal communication procedures.

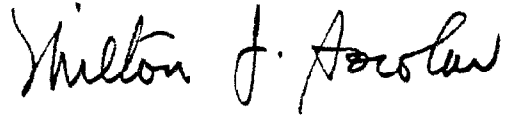
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As requested by your office, we did not provide CSA officials with a draft of this report for their review and comment. As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until

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30 days from its date. At that time we will send copies to interested parties and make copies available to others upon request.

Sincerely yours,

A handwritten signature in cursive script that reads "Milton J. Aroslaw". The signature is written in black ink and is positioned above the typed name.

Acting Comptroller General  
of the United States