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BY THE U.S. GENERAL ACCOUNTING OFFICE
**Report To The Assistant Secretary For
 Employment And Training
 Department Of Labor**

**Improvements Can Be Made In The Fiscal
 Management Of CETA**



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UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

JMAN RESOURCES
DIVISION

The Honorable Albert Angrisani
Assistant Secretary for
Employment and Training
Department of Labor

Dear Mr. Angrisani:

The results of our review of fiscal management practices and procedures at 8 Comprehensive Employment and Training Act (CETA) prime sponsors and 23 subgrantees in 4 Department of Labor regions are discussed in the appendixes to this report. Although our findings pertain only to the locations reviewed, we believe the problems identified may exist elsewhere because many of them were reported in other studies by us and Labor's Office of the Inspector General.

In summary, we found that:

- Federal interest costs could be reduced by better management of CETA cash held by prime sponsors and subgrantees. Recent Labor actions should help correct the problems identified. (See pp. 4 through 13.)
- Prime sponsors' property management systems did not provide adequate accountability over CETA property they and their subgrantees used. As a result, some prime sponsors and subgrantees did not know how much property they were responsible for, while others could not account for all their property. (See pp. 13 through 20.)
- Questionable costs were charged to CETA because prime sponsors and subgrantees did not have adequate procedures for determining the reasonableness and allowability of costs. (See pp. 21 through 29.)

We recognize that your office recently acted to correct some of these problems; however, we believe that additional actions are needed.

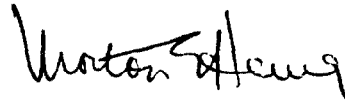
Our recommendations to you for improving fiscal management of the CETA program appear on pages 13, 20, and 29 of appendix I. We also believe that the fiscal management problems identified will continue to need attention even if the structure of CETA is changed during the reauthorization process.

In addition, future problems may occur because prime sponsors and Labor do not know the cost, amount, and location of property acquired under the CETA program. For example, should the current prime sponsor structure change and the CETA property have to be transferred to other organizational units, such as States or Private Industry Councils, Labor may not be able to ensure that the Federal Government's interests are protected.

We would appreciate being advised of the actions taken on our recommendations. Copies of this report are being sent to the eight prime sponsors reviewed and to other interested parties.

We appreciate the Department's courtesy and cooperation during our review.

Sincerely yours,



Morton E. Henig
Senior Associate Director

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ABBREVIATIONS

CETA	Comprehensive Employment and Training Act
ETA	Employment and Training Administration
OMB	Office of Management and Budget

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IMPROVEMENTS CAN BE MADE IN
THE FISCAL MANAGEMENT OF CETA

BACKGROUND

The Comprehensive Employment and Training Act (CETA), as amended in 1978 (29 U.S.C. 801), is designed to provide training and employment opportunities for economically disadvantaged, unemployed, and underemployed persons to enable them to secure self-sustaining, unsubsidized employment.

Since 1974, CETA has cost about \$54 billion. For fiscal years 1980 and 1981, the Congress appropriated \$8.1 billion and \$7.6 billion, respectively, for the CETA program. 1/

Under its several titles, CETA authorizes State and local governments to plan and operate training and employment programs, subject to Federal oversight. The act and Labor regulations assign responsibility for CETA's fiscal management at three levels--the Department of Labor, prime sponsors, and subgrantees.

We believe good fiscal management is necessary because it helps managers assure themselves of the need for goods or services provided or procured; the reasonableness of costs incurred; the adequacy of safeguards over resources acquired and their proper use; and the accuracy and reliability of financial, statistical, and other reports.

Labor's Employment and Training Administration (ETA) is responsible for overseeing the CETA program, reviewing and evaluating the performance of prime sponsors, and providing technical assistance to them. These reviews and evaluations include periodic visits, annual assessments, and financial and compliance audits by Labor, States, or public accounting firms.

Prime sponsors--generally State and local governments of areas with populations of 100,000 persons or more--are responsible for assessing local needs and developing program activities designed to meet participants' needs. Regarding fiscal management, Labor regulations require prime sponsors to

- maintain effective control and accountability over all funds, property, and other assets covered by the contract and/or subgrant;

1/The President's fiscal year 1982 budget request called for eliminating the major employment program within CETA (Public Service Employment). For fiscal year 1982, based on the Congress' third continuing appropriations resolution, \$3.774 billion, including \$.751 billion deferred from fiscal year 1981, will be available for expenditure.

- have sufficient, auditable records to support the expenditure of all funds under the act;
- have procedures for determining reasonableness, allowability, and allocability of costs; and
- have procedures to minimize unused Federal funds in their accounts.

Prime sponsors are also required to review and ensure subgrantees' compliance with the law and regulations and with the terms of their agreement with the prime sponsor. Prime sponsors use their own independent monitoring units and financial and compliance auditors (obtained through contract with private firms or agreements with State or local agencies) to help them assess subgrantee compliance with the law and regulations. The independent monitoring units are to periodically review subgrantee capability for carrying out programs and activities and to monitor subgrantee maintenance of records on all expenditures of CETA funds.

Subgrantees are required to maintain adequate and effective control and accountability over all funds, property, and other assets covered by their contracts or subgrants. These basic requirements are directed at obtaining accurate accounting for CETA funds and assurance that such funds are used efficiently and only for the intended purposes.

In 1980, under Labor's oversight, 472 prime sponsors worked with an estimated 50,000 subgrantees in carrying out CETA programs. Such decentralization of program management assumes that prime sponsors are familiar with the people needing services and can best plan programs and set priorities to serve their needs. However, decentralized program management requires strong fiscal controls at all levels to ensure that funds are being spent appropriately.

Objectives, scope, and methodology

During CETA reauthorization hearings in 1978, the Congress expressed concern that Labor had not placed enough emphasis on strong fiscal management of the program. As a result, when CETA was reauthorized in October 1978, the Congress amended the act (Pub. L. No. 95-524) to require increased emphasis on fiscal responsibility, prevention of fraud and abuse, and auditing and monitoring of CETA activities at all levels.

Later congressional appropriation and oversight hearings on CETA, and our previous report entitled "Weak Internal Controls Make the Department of Labor Vulnerable to Fraud, Waste, and Abuse" (AFMD-81-46, Mar. 27, 1981) have shown a need for continued emphasis on fiscal management of the program. Our recent review was made to obtain a better understanding of the nature of fiscal

management problems at the prime sponsor and subgrantee levels and to develop recommendations for correcting those problems.

Because of the CETA program's size--472 prime sponsors and an estimated 50,000 subgrantees--selecting a projectable random sample was impractical. We therefore made a judgment sample of 4 Labor regions--Chicago, Kansas City, New York, and Philadelphia--8 prime sponsors, and 23 subgrantees. We considered the following factors in selecting these locations.

--Labor regions. We selected four Labor regions to provide national representation. Another factor considered was the availability of our staff within those regions to perform the work.

--Prime sponsors. We selected eight prime sponsors by considering their proximity to our regional offices and their program size relative to the universe of CETA programs. The selection resulted in the following distribution:

<u>Universe</u>	<u>Sample</u>	<u>Program size</u> (millions)
410	6	\$1 - \$25
50	1	25 - 75
12	1	75 and over

The eight prime sponsors we reviewed were allocated about \$286 million, or about 3.5 percent of the CETA funds for fiscal year 1980.

--Subgrantees. In selecting the 23 subgrantees for review, we considered a number of factors, including: (1) the amounts of expenditures for services to the economically disadvantaged and for upgrading and retraining (CETA title II, parts B and C); (2) administrative and management problems previously identified by the prime sponsor or contract audit firms (we avoided the worst cases, but chose some with suspected problems); and (3) discussions with prime sponsor officials.

Statistically valid projections cannot be made from our findings because we reviewed relatively few sponsors and subgrantees, and our sample was judgmental. However, the problems we found are similar to those identified in reports by Labor's Office of the Inspector General and independent auditors. (See pp. 12 and 19.)

Our primary objectives were to determine if

- prime sponsors and subgrantees maintained cash balances in excess of their immediate needs;
- prime sponsors and subgrantees were managing and overseeing property in accordance with Labor's property management standards; and
- participants under title II-B of CETA were being correctly paid for hours spent in training or work experience programs.

To accomplish our objectives, we interviewed ETA personnel at Labor headquarters and regional offices. Labor prime sponsor grant files were also reviewed. In addition, we interviewed regional and headquarters Labor Inspector General personnel and reviewed their audit reports relating to our objectives. At the 8 prime sponsors and 23 subgrantees, we reviewed cash balances and disbursement files, examined procurement and property records, tested inventories, reviewed payroll time and attendance and payment records, and interviewed responsible officials.

This review was performed in accordance with our current "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions." The review was made before the normal CETA financial and compliance audits. When these audits are made, they may identify some of the same issues we discuss. The results of our review and our recommendations for corrective actions are presented in the following sections.

LABOR NEEDS TO HELP PRIME SPONSORS REDUCE CASH BALANCES

During fiscal year 1980, four of the eight prime sponsors we examined held excess cash. In addition, seven of the eight allowed one or more of their subgrantees to hold excess cash. These conditions resulted from prime sponsors' (1) drawing cash from the Federal Treasury earlier than necessary and (2) advancing funds in excess of the subgrantees' needs. The problem was compounded by some prime sponsors' failure to recover unspent funds from their subgrantees after the the contract year ended. Inaccurate reports by prime sponsors of cash on hand have limited Labor's opportunity to monitor the excess cash. As a result of these conditions, the Federal Government has incurred unnecessary interest costs.

In late January 1982, ETA issued Field Memorandum No. 39-82 to provide guidance to regional administrators on a CETA cash management system. Required actions include monitoring prime sponsor cash balances and cash drawdown requests more closely, and conducting, when necessary and if possible, onsite reviews. Labor also plans to issue guidance on grantee and subgrantee

closeout problems. These actions should help identify and correct the problems cited below. The ETA Comptroller told us that the guidance was issued pursuant to our August 1981 briefing on the findings of this report; Labor's Office of Inspector General's October 20, 1981, report "Cash Management in the CETA Program is Ineffective" (DPIA-81-2); and our March 27, 1981, report.

Treasury and Labor requirements

The Department of the Treasury is responsible for cash management on a Government-wide basis and disburses requested funds to CETA grantees. Both Treasury and Labor are responsible for ensuring that CETA prime sponsors receive the funds needed to meet obligations in time to preclude their use of non-Federal money. Treasury is to determine that funds requested appear not to exceed immediate needs. Labor's responsibilities include monitoring grantee financial practices to ensure against excessive withdrawals of Federal funds.

Treasury's regulation (31 CFR 205) governing withdrawal of cash for advances under Federal grant and other programs states that:

"Cash advances to a recipient organization shall be limited to the minimum amounts needed and shall be timed to be in accord only with the actual, immediate cash requirements of the recipient organization in carrying out the purpose of the approved program or project. The timing and amount of cash advances shall be as close as is administratively feasible to the actual disbursements by the recipient organization for direct program costs and the proportionate share of any allowable indirect costs."

* * * * *

"Cash advances made by primary recipient organizations to secondary recipient organizations shall conform substantially to the same standards of timing and amount as apply to cash advances by Federal program agencies to primary recipient organizations. Federal program agencies shall require primary recipient organizations to develop procedures whereby secondary recipient organizations can obtain funds from the primary recipient organization as needed for disbursement."

The regulation does not specify the number of days' cash supply that should be maintained at prime sponsor or subgrantee levels. Labor's "CETA Financial Management Handbook" states that:

"There is no predetermined number of days' cash supply that is officially sanctioned by Treasury, DOL [the Department of Labor], or ETA. However, any amount on hand that cannot be related to a valid existing cost, immediately due and payable, may be construed as excess cash on hand." (Emphasis added.)

Similarly, Labor's "Forms Preparation Handbook" for prime sponsors provides that drawdowns from the Treasury "* * * should be in amounts to meet only current disbursing needs (defined as the amount of cash required to make payments on the day received or the day following receipt)." However, ETA officials told us that daily drawdowns of cash may not be feasible in every case, so ETA used a 3-day disbursement period as an informal guide for determining whether or not sponsors are holding excess cash. 1/

Three business days' disbursements have also been used by Treasury and other Federal agencies as an informal guide for determining the minimum amount of cash needed for recipients under letters of credit. For purposes of our analysis, we adopted the 3-day rule of thumb as a measure of excess cash at the prime sponsor level. However, we believe that in some cases, considering the interest cost to the Government, 3 days' cash may be too much, especially at large prime sponsors.

Excess cash at prime sponsors

Four of eight prime sponsors had cash in excess of what they needed for 3 days' operations. As shown below, these four prime sponsors had an average daily balance of about \$2 million in excess cash. Cash data on each of the prime sponsors were obtained from information available for the most recent 3-month period in fiscal year 1980.

Excess Cash at the Prime Sponsors

<u>Prime sponsor</u>	<u>Number of business days' cash on hand</u>	<u>Amount of cash in excess of 3 days</u>
Columbus, Ohio	11.8	\$ 983,267
Balance of State, Mo.	5.9	740,865
Montgomery County, Pa.	6.7	276,451
Kansas City, Kans.	6.8	<u>48,455</u>
Total		\$2,049,038 =====

1/Field Memorandum No. 39-82 now requires the amount of cash on hand to be that required for payments on the day the Treasury check is received or the following day.

Excess cash held by prime sponsors deprives Treasury of funds that could be used elsewhere. The Government could also incur unnecessary interest costs when Treasury borrows funds to provide cash to the CETA program or fund other needs which could have been satisfied with the cash held by prime sponsors. Because the timing of payments to recipients affects Treasury's financing costs and the level of the public debt, using interest rates in effect for Treasury borrowings during fiscal year 1980, we calculated the potential interest cost to the Federal Government for the excess cash at the four prime sponsors for the 3-month periods reviewed to be \$49,213.

Opportunities for Labor
to assist prime sponsors

Opportunities exist for Labor to work with the prime sponsors in correcting the problems which resulted in excess cash. The following examples illustrate some of these conditions and the types of corrective actions necessary to eliminate them.

The Columbus, Ohio, prime sponsor had an average of 11.8 business days' cash on hand. Much of this excess resulted from the prime sponsor's practice of having 10 business days' cash on hand.

The prime sponsor's procedures for making drawdown requests from Treasury also contributed to the excess cash problem. The fiscal administrator and five fiscal analysts are responsible for financial management of the sponsor's 11 CETA programs. According to Columbus officials, the first analyst who needs CETA funds will prepare the drawdown request and ask the other analysts whether they also need money. However, when one analyst makes a request, the sponsor does not determine whether funds in the accounts of other analysts are available to meet these needs. As a result, even though several CETA programs had significant cash balances, the sponsor continued to draw additional money from Treasury.

In addition, the Columbus prime sponsor's policy is to generally advance its subgrantees up to 2 months' expenses at the beginning of the program year and to give them additional funds monthly up to the maximum 2 months' advance. This policy also required the sponsor to draw cash from Treasury in advance of actual needs.

The following are possible actions the Columbus prime sponsor could take to reduce idle funds on hand.

- Eliminate the practice of keeping 10 business days' cash on hand.
- Initiate coordinated drawdown requests which consider the combined balances and combined estimated expenditures for all 11 CETA programs.

--Pay large subgrantees more often than monthly (84 percent of the sponsor's payments to subgrantees went to 7 of the 25 subgrantees in fiscal year 1980), thereby avoiding large advance drawdowns of Federal funds.

The Balance of State, Missouri, prime sponsor generally made large cash drawdowns (averaging \$4.1 million a month during the last quarter of fiscal year 1980) from Treasury to cover monthly payments to subgrantees. This money was deposited in an account from which only the State treasurer's office was authorized to make withdrawals. When the sponsor requested checks from the treasurer's office for monthly payments to its subgrantees, the check writing period took about 10 days. As a result, large amounts of CETA funds were unused for this period.

In early 1981, the prime sponsor began depositing CETA funds directly into the accounts of two subgrantees, which were State agencies, rather than in the State treasurer's account. These subgrantees received 59 percent of the sponsor's funds. By avoiding the 10-day check writing period, the sponsor should be able to reduce the size of its drawdowns.

The Missouri prime sponsor could make further changes in the system to reduce the remaining idle funds on hand. Some possible actions are to

--pay large subgrantees more often than monthly (75 percent of the sponsor's funds in fiscal year 1980 were paid to 9 of 77 subgrantees) and

--explore the possibilities of obtaining authorization for issuing checks directly to other subgrantees, rather than using the State treasurer's system. (Another Missouri State agency operating a federally funded program has this authority.)

The Kansas City, Kansas, prime sponsor had an average of 6.8 business days' cash on hand. The major cause of this excess, according to a sponsor official, the fiscal officer, and the city auditor, is a State law requiring funds to be on hand before the city's board of commissioners approves payment of invoices. As a result, the funds have to be on hand about a week before the planned expenditure date.

Kansas City, Kansas, uses the Federal letter-of-credit system to obtain cash advances. The system makes cash readily available and allows the grantee to quickly obtain needed funds within amounts specified by Labor. Labor could explore with the prime sponsor whether the State law could be modified to allow the sponsors' letter-of-credit to be considered cash "actually on hand" for the purposes of the board of commissioner's approvals. Two

previous reports ^{1/} noted similar situations in grant programs and recommended a Federal-State cooperative effort to correct the problem.

Inaccurate reporting of prime sponsor cash balances

Prime sponsors are required to include the estimated number of days' Federal funds on hand when they make drawdown requests. Standard Form 183, "Request for Payment on Letter of Credit and Status of Funds Report," is used for this purpose. A copy of the form is also submitted to the Labor regional office. This information, if accurate, could be used by Labor in monitoring excess cash held by sponsors. However, the estimates placed on the form by sponsors were inaccurate and, therefore, of no value in monitoring the cash balances. As discussed, average cash balances at four of the eight prime sponsors were in excess of 3 days' requirements. However, these four sponsors reported 3 days' cash on hand in their drawdown requests.

In January 1982, ETA Field Memorandum 39-82 emphasized that Federal representatives should monitor prime sponsors' cash balances.

Excess cash at subgrantees

Seven of the eight prime sponsors allowed one or more of their subgrantees to hold excess cash. At the subgrantees we visited for the Cincinnati prime sponsor, the excess cash resulted primarily because the sponsor had not recovered unspent funds from the subgrantees after the contract year ended. At the other six sponsors, the excess cash resulted primarily from the sponsors' practices of advancing funds prematurely during the contract year.

Surplus cash not recovered promptly from prior contract periods

At the beginning of fiscal year 1981, the Cincinnati prime sponsor had not recovered \$1.2 million from fiscal year 1979 advances and \$.2 million from fiscal year 1978 advances.

^{1/}"Opportunities for Savings in Interest Cost Through Improved Letter-of-Credit Methods in Federal Grant Programs" (FGMSD-75-17, 4-29-75); "HEW Must Improve Control Over Billions in Cash Advances" (FGMSD-80-6, 12-28-79).

The unrecovered amounts at the three subgrantees we visited were:

Subgrantee	<u>Amount outstanding</u>	<u>Days of cash</u>
1	\$ 80,429	25.7
2	348,090	9.8
3	34,457	4.7

These subgrantees continued to receive funds during fiscal year 1980, generally on a monthly basis.

Another subgrantee we did not audit had \$562,729 on hand at the beginning of fiscal year 1981 from fiscal year 1979 cash advances. The prime sponsor's finance coordinator said he was not aware of the magnitude of the unreturned fiscal year 1978 and fiscal year 1979 cash advance balances. After our discussions, he contacted two subgrantees and recovered about \$330,000. As a result of subsequent efforts by the sponsor, all but about \$150,000 had been returned as of January 1981.

The Kansas City, Missouri, prime sponsor also had not recovered funds advanced in fiscal years 1978 and 1979 by the beginning of fiscal year 1981. These unrecovered funds amounted to \$373,509. By March 1981, all of the fiscal year 1978 and 1979 funds were recovered. All other sponsors we visited had recovered fiscal year 1979 advances by the close of fiscal year 1980, but the recovery process often stretched over most of the fiscal year. For example, the Hudson County, New Jersey, subgrantees had \$149,629 in fiscal year 1979 funds on hand for about 10 months after the fiscal year ended before the money was returned to the sponsor.

Prime sponsors advanced cash prematurely during the contract year

One or more subgrantees under six prime sponsors held cash exceeding their immediate needs because the sponsor advanced cash to them prematurely. Five of the six sponsors generally provided funds to their subgrantees monthly. The sixth sponsor generally provided funds twice monthly. Thirteen of the 15 subgrantees receiving advances averaged over 3 business days' cash on hand, and 5 of them averaged over 21 business days' cash on hand.

The average number of business days of cash on hand at the 13 subgrantees ranged from 4.8 to 50.8, and the average daily cash balance ranged from about \$5,000 to \$357,000.

One of the subgrantees averaged about 16 days' cash on hand during July, August, and September 1980. At one time during the fiscal year, this subgrantee had enough cash to meet its needs for 76 days.

The Balance of State, Missouri, prime sponsor's monitoring of this subgrantee's cash balance was not always effective in limiting the cash balance on hand and shows the need for sponsors to better monitor their subgrantees' cash balances. The subgrantee's fiscal officer said that, when the program started (late in fiscal year 1979), she was uncertain how fast it would become fully operational and how much cash it would need. Thus, she made a standard request for \$100,000 each month. The sponsor pays its subgrantees monthly, and this subgrantee received \$100,000 per month through March 1980. The \$100,000 advance exceeded monthly expenditures, and as a result, an excess built up. With the deposit of the sponsor's March check, the subgrantee's bank account balance reached \$328,000. During April, the subgrantee's average cash on hand would meet its needs for 76 days. Through its own monitoring the sponsor at this point recognized the problem and stopped providing the \$100,000 each month, and the excess cash declined during the remainder of the year.

Conditions which impede the
reduction of subgrantee cash
balances

Treasury regulations state that the timing and amount of cash advances shall be as close as is administratively feasible to the organization's actual disbursements. We recognize that it may not be administratively feasible for each prime sponsor to provide all subgrantees only those funds that will be disbursed within a 1- to 3-day period after receipt.

A barrier to achieving this goal at some locations is that prime sponsor payment systems are not designed or staffed sufficiently to provide frequent payments to a large number of subgrantees. For example, a month or more may elapse from the time subgrantees request payment from the sponsor until they receive and deposit funds in their accounts. In addition, subgrantees' cash flow systems may not be sophisticated enough to project 3-day cash disbursement needs as much as 1 to 2 months in advance.

For example, the Cincinnati prime sponsor made payments to 60 subgrantees for 97 contracts during fiscal year 1980. Each subgrantee submits a monthly expenditure report for each contract. It takes from 1 to 1-1/2 months for the subgrantees to receive funds from the sponsor. The sponsor's finance coordinator stated that many subgrantees will continue to have cash flow problems because of the long turnaround time for reimbursing vouchers. According to him, there is a backlog under the current monthly reimbursement system because of lack of staff. He added that the sponsor does not have enough staff to process the paperwork for additional drawdowns.

Similarly, the Balance of State, Missouri, prime sponsor made payments to 77 subgrantees for 160 contracts during fiscal year 1980. Sponsor fiscal officials stated that, because of the

numerous contracts involved, the number of reports that must be reviewed monthly, and the length of turnaround time for requesting and receiving funds (about 20 days), paying subgrantees more frequently than monthly was not feasible. They said that additional staff was requested to keep up with the present workload. According to the sponsor's administrative services chief, unforeseeable delays can develop when using a payment system operated by another agency, as is required in this case (see p. 8), and if delays occur, the subgrantees can often experience serious cash shortages.

The director of one small subgrantee stated that judging 1 or 2 months in advance how much money will be needed is difficult. She said the subgrantee once ran out of funds and was not able to pay bills or meet payrolls, and she did not want this to happen again.

Similar problems identified
in other recent reviews of
CETA cash management

Our March 27, 1981, report and Labor's Office of Inspector General's October 20, 1981, report both identified excess cash balances in the CETA program. Our report showed that three of the four subgrantees visited maintained excessive cash balances. In its response to that report, Labor acknowledged that excessive cash balances are a problem at the subgrantee level. Labor attributed this in part to overcompensating efforts of subgrantees to ensure that Federal funds are on hand at all times to pay CETA bills. Labor also attributed the excess cash balances to looseness in prime sponsors' procedures for reviewing fund requests.

The Inspector General's report disclosed serious cash management problems at four of the seven prime sponsors the Labor auditors visited. The report noted that, in addition to having excessive cash, sponsors often did not have accurate information on the amount of CETA funds they had, and some sponsors inaccurately reported fund balances, number of funds, and number of days' cash on hand.

Labor efforts to improve
cash management

Field Memorandum No. 39-82 requires Federal representatives to establish with sponsors "benchmarks" for cash drawdowns; desk monitor sponsors' cash balances and advances to subrecipients; and conduct, when necessary and if possible, onsite reviews. Interest penalties are to be assessed if the sponsors exceed the "benchmark" amounts and have excess cash. Labor also plans to issue guidance on grantee and subgrantee closeouts.

In addition, Labor added emphasis on review of subgrantee cash balances and prime sponsor advance payment policies in the 1981 "CETA Audit Guide." It also developed a certification guide

for review of sponsor financial reporting and recordkeeping systems which includes reviewing sponsors' control of subgrantee cash balances.

Conclusions

Labor's actions in requiring Federal representatives to monitor prime sponsors' cash management and its plans for issuing guidance on grantee and subgrantee closeouts should help reduce the excess cash balances held by sponsors and subgrantees. The added emphasis on review of sponsor and subgrantee cash balances during audits should also help. However, because of the different causes of excess cash at sponsors and subgrantees, we believe direct assistance to sponsors needs to be emphasized to ensure that problems identified in this and other recent reviews are corrected. In addition, we believe sponsors should first work with their largest subgrantees to assure that the more significant excess cash balances are reduced as soon as possible.

Recommendations

We recommend that you take the following actions to identify and correct problems resulting in the Federal Government incurring unnecessary interest costs because of excess cash held by prime sponsors and their subgrantees.

- Emphasize to ETA regional officials the need to conduct onsite reviews and to help prime sponsors seek changes to their and subgrantees' operations for eliminating excess cash.
- Emphasize to prime sponsors that they work first with their largest subgrantees to identify excess cash balances. This approach should help reduce the largest excess cash balances as soon as possible.
- Carry out as soon as possible the plan for requiring each prime sponsor to identify and promptly recover any unexpended funds held by subgrantees at the end of each fiscal year.

BETTER MANAGEMENT OF CETA PROPERTY IS NEEDED

Labor's property regulation (41 CFR 29-70.215) requires that prime sponsors have a property management system which will ensure that:

- Property purchases and disposals are entered into inventory records.
- Property is marked for easy and quick identification.

--Property is inventoried at least every 2 years and the inventory results are reconciled with the property records.

--Adequate safeguards exist to prevent property damage, loss, or theft.

Another Labor regulation (41 CFR 29-70.101) requires that subgrantees also comply with these property management requirements. Labor holds each prime sponsor responsible for its subgrantees' compliance with property regulations because sponsors hold title to CETA-purchased personal property.

Prime sponsors have not established property management systems which provide adequate accountability for CETA personal property they and their subgrantees use. Physical inventories were not taken, property could not be accounted for, and some property had been stolen. These conditions resulted from the sponsors' failure to comply with Labor property management regulations.

Five of the eight prime sponsors in our review held property with a total estimated value of \$2,027,000. The other three sponsors were unable to give us estimates of the value of their property.

Prime sponsors did not establish or maintain adequate property records

Labor requires that property records include property identification numbers, acquisition unit cost, location and use of property, and inventory date.

None of the prime sponsors had adequate property records for personal property ^{1/} in their possession, and 14 subgrantees under seven sponsors did not have adequate records for their property. Without adequate property records, prime sponsor officials did not know the amount of property that was or should have been on hand at the sponsor or subgrantee locations.

For example, three of the eight prime sponsors could not determine the total dollar value of their property inventory because of inadequate property records. The other five prime sponsors could provide only estimated property values.

^{1/}Personal property is defined by Labor as any property other than land or structures thereto.

<u>Prime sponsor</u>	<u>Estimated inventory value</u>
Columbus, Ohio	\$735,000
Balance of State, Mo.	600,000
Kansas City, Mo.	470,000
Montgomery County, Pa.	112,000
Kansas City, Kans.	110,000
Hudson County, N.J.	No estimate
Philadelphia, Pa.	No estimate
Cincinnati, Ohio	No estimate

Property not accounted for on property records or not properly labeled (especially excess property or property not frequently used) could be lost or stolen without either the prime sponsor or the subgrantee being aware that it ever existed. For example, in April 1980, 63 pieces of property valued at \$1,366, including 5 tape recorders and 1 projector, were stolen from one subgrantee. None of this property had ever been placed on the property lists.

The Hudson County prime sponsor did not have an adequate property control system. Its system consisted of a series of sometimes unrelated procedures and records which had not been integrated into a structured approach for controlling property. We were unable to obtain an accurate inventory value because the available records did not include information for the identification and cost of property items. This condition was previously identified in an August 1979 independent monitoring unit report. When we concluded our review in May 1981, the executive director had appointed a new property officer.

In addition, one of the Hudson County subgrantees had no property records before January 1981. The subgrantee initiated two property lists in January and February 1981 and updated them to cover equipment purchased from May 1, 1979, to March 1981. However, the lists did not contain serial numbers for many items and had incorrect locations for others.

Property records for a subgrantee of the Columbus prime sponsor are maintained by each program supervisor. One program supervisor did not maintain records that included serial numbers for equipment costing about \$91,000. This supervisor's records were primarily equipment lists prepared annually by classroom instructors. Without the serial numbers, specific equipment cannot be accounted for, and if stolen, cannot be identified.

Property records were not updated
to show recent purchases

Five of the eight prime sponsors had not updated their records to show recently acquired property. Property at 14 subgrantees under 7 sponsors had not been added to property records. We identified property valued at about \$200,000 at sponsors and subgrantees that had not been added to sponsor property records.

The Cincinnati prime sponsor, for example, did not add equipment and furniture purchased during fiscal years 1978-80 to its property list. The equipment included an automatic check signer (\$3,465) and a computer terminal (\$1,866). Purchases of nonexpendable personal property totaling over \$119,000 by one Columbus subgrantee were not added to the sponsor's property records. At the Kansas City, Kansas, sponsor, we identified property items costing \$66,720 that were not added to the property records. Of this amount, \$17,660 was for property purchased by a subgrantee.

Required inventories not
taken or reconciled

Seven of the eight prime sponsors had taken physical inventories of the property they held. However, four sponsors did not make reconciliations, and two of those did not perform adequate inventories. None of the eight sponsors had inventoried and reconciled the CETA property they owned at all of their subgrantees. Of the subgrantees we visited, 10 had not taken required physical inventories, and 9 others that had taken inventories had not reconciled the inventories to their property records.

In Cincinnati, the prime sponsor had not taken an adequate physical inventory of personal property. The city's purchasing department tagged all of the sponsor's property on hand and prepared a list showing quantity and description during 1979. In October 1979, the city manager's office requested that the sponsor complete this list by adding the year of purchase, initial cost, present condition, and serial numbers of the property. But, as of September 1980, this had not been done, and the prime sponsor had not verified the list's accuracy or completeness.

In 1979, the Hudson County prime sponsor made a list of all property on hand but made no reconciliation. Property cards prepared from the list showed the location for all items found by the sponsor and the newly assigned sequential numbers. In a few cases the property cards noted the items' conditions. The cards, however, did not include serial and model numbers.

Prime sponsors also had not performed complete physical inventories and reconciliations at all of their subgrantees. For example, the Balance of State, Missouri, sponsor had taken inventories at only 10 of the approximately 60 subgrantees with CETA property within the 2 years preceding our review. The sponsor's property officer had property management as a part-time responsibility along with his other duties and did not take physical inventories at subgrantees. The fiscal officer said the property officer did not have time to take inventories at subgrantees. Although inventories were not taken, the sponsor's program monitors had made property checks at subgrantees. At two of the three Kansas City, Kansas, subgrantees, complete inventories had not been taken since 1976. One of these subgrantees took a partial inventory but did not reconcile it. The second subgrantee took

no inventory except for a weekly visual inspection of easily removed items. This subgrantee's director said she had not been instructed to take inventories. Two of the three Cincinnati, Ohio, subgrantees took inventories but did not reconcile them.

Some property could not be located

We tested inventories of 624 property items at 8 prime sponsors and 19 ^{1/} subgrantees. We could not locate 30 pieces of equipment, such as calculators, typewriters, and tape recorders. In addition, seven sponsors or their subgrantees independently identified property as missing or stolen.

The property officer at Hudson County told us that the frequent disappearance of small items of equipment, such as a camera and a dictating machine, had been a problem. He said these items were reported to county officials as stolen. The prime sponsor's independent monitoring unit reported that about \$4,000 in equipment was stolen from one of the subgrantees in 1980.

At a Montgomery County subgrantee, we could not locate 7 typewriters in our sample of 22 high-value, easily removed items. Ten typewriters, which the prime sponsor said were at the subgrantee's location, were not on the subgrantee's inventory. The same subgrantee reported two other typewriters as stolen. Property records of a Hudson County subgrantee showed that 32 transcribers, purchased in 1979 for \$12,000, were located in a word processing classroom. However, none of the transcribers were in the classroom. Twenty were found in a storeroom, but subgrantee officials were not able to locate the other 12, which were valued at \$4,500.

Property in excess of needs

An effective property management system should ensure that excess property is identified and made available to meet needs elsewhere. While excess property was not included in our audit scope, we noted that it was a problem at one Hudson County subgrantee.

The subgrantee had equipment valued at \$75,000 which was not being used and was not expected to be used through June 30, 1981, due to course cancellations because of low enrollments. Property valued at about \$44,000 had not been used since June 1, 1980; property valued at \$66,400 had not been used since the fall semester 1980; and the entire amount of equipment valued at \$75,000

^{1/}We did not perform inventory tests at the other four subgrantees in our review for the following reasons. Two of them had no CETA property. A certified public accounting firm conducted such a test at the third subgrantee and located all of the items in its test. The prime sponsor ceased contracting with the fourth subgrantee before our inventory test.

was not used during the spring of 1981. The subgrantee informed the prime sponsor that machine shop equipment, valued at \$14,963, was not being used, but had not notified the sponsor of the other property. According to the subgrantee director, the sponsor's property officer instructed her to hold the machine shop equipment several months until the sponsor acquired a place to store it. However, the subgrantee had no plans to use this equipment again.

After our review, the Hudson County prime sponsor executive director told us that a study of property needs was initiated at some of the sponsor's subgrantees, including those in our review. The Labor Region II Finance Administrator said the region would follow up on the excess property situation at the Hudson County subgrantee after receiving a report requested from the sponsor on the subgrantee's property needs.

Property purchased without Labor approval

Before December 1980, Labor's property regulations required that grantees obtain prior approval from Labor's grant officers for all purchases of nonexpendable personal property having a unit cost of \$1,000 or more. ^{1/} Four of the eight prime sponsors and 4 of the 23 subgrantees purchased equipment or property with a unit cost of \$1,000 or more without Labor's prior approval. We identified 14 unapproved purchases totaling more than \$87,000 for fiscal years 1977-80.

Since Labor's regions do not receive prime sponsor inventory data, they cannot be sure sponsors are always seeking prior approval. According to the Finance Administrator of Labor's New York Region, the region cannot adequately police the \$1,000 approval requirement and often has to rely on auditors or the Federal representatives to detect unapproved purchases.

The Kansas City, Kansas, prime sponsor made three unapproved purchases totaling \$21,697 during 1979 and 1980. The purchases included a copier purchased for \$4,120 in March 1980, a copier purchased for \$12,353 in 1979, and a memory typewriter purchased for \$5,225 in 1979.

After we brought the lack of Labor's approval to his attention, a prime sponsor official requested retroactive approval from the regional grant officer. The grant officer gave approval on August 26, 1980, but rescinded his approval for the \$12,353 copier in a November 14, 1980, letter. The letter stated that this acquisition could not be approved and that retroactive approval could not be given.

^{1/}In December 1980, Labor revised its property regulations to lower the unit cost limit for prior approval to \$500.

Two prime sponsors and one Labor finance administrator were apparently not aware that Labor's approval requirements included either property purchased by subgrantees or property acquired through lease-purchase arrangements.

Labor's property handbook requires grantor agency approval for lease-purchase agreements in excess of \$1,000. The Balance of State, Missouri, prime sponsor purchased three items of equipment, each costing over \$1,000, during 1978-80. The sponsor requested Labor's approval to purchase two of these items but did not request approval for the third item--a programmable calculator costing \$3,210. The sponsor's property officer said that this was a lease-purchase arrangement which he had interpreted as not requiring prior approval.

The Cincinnati prime sponsor obtained prior Labor approval for its purchases of \$1,000 and over, but did not obtain prior approval for such purchases by its subgrantees. Sponsor officials told us they thought subgrantee purchases needed only sponsor approval; therefore, they did not request Labor approval for such purchases. For example, Cincinnati subgrantees purchased a computer terminal (\$1,495), a camera (\$1,100), and a video cassette recorder (\$1,046) without prior Labor approval.

A subgrantee of the Hudson County prime sponsor purchased eight items since May 1979 costing over \$1,000 each without obtaining Labor approval. The cost of the eight items was \$24,303. The Region II Labor Finance Administrator said he did not believe he could require sponsors to obtain Labor approval of subgrantee property purchases for \$1,000 or more because the regulations did not specifically state that the requirement applied to subgrantees. However, as discussed on page 14, the regulations do subject subgrantees to Labor property requirements.

Failure to act on prior audit recommendations

Previous audits by Labor's Office of Inspector General and by independent auditors, as well as reviews by prime sponsor independent monitoring units, pointed out the need for better property management. Nevertheless, seven of the eight sponsors had not taken necessary actions at their own locations or at the locations of their subgrantees to correct identified property management problems. At the eighth sponsor, Kansas City, Kansas, we identified problems in property management, but prior Inspector General reports did not make recommendations regarding property management.

The Hudson County prime sponsor's independent monitoring unit was critical of the sponsor's property control program. In an August 1979, report, the monitoring unit stated that confusion

existed as to who was ultimately responsible for inventory control. The report called for reconstructing the system to provide a controlled method of identifying, tracing, and transferring property.

In June 1980, the monitoring unit again reported on property management. The report described the inventory system as an administrative debacle and practically nonexistent. Between February and April 1981, the prime sponsor acted to improve property management by appointing a new property officer and inventorying the property at one of the two subgrantees in our review.

Four prime sponsors did not act on recommendations made regarding property at five subgrantees. For example, at two of the three Cincinnati sponsor's subgrantees, adequate property record systems had not been established. Audit reports issued in 1977 recommended such a system at both locations.

Conclusions

Many of the property management problems we identified had been previously identified at seven prime sponsors or their subgrantees. However, the sponsors had not made the recommended changes. We believe Labor should pay more attention to property controlled by sponsors because of the large amounts of Federal funds involved and the susceptibility of weak systems to theft and misuse.

Recommendations

We recommend that you direct ETA regional officials to emphasize to prime sponsors:

- The importance of establishing property accountability systems which include adequate property records, periodic physical inventories, and controls to prevent loss or theft of property.
- Their responsibility for CETA property held by subgrantees.
- That Labor's regulations requiring approval of property purchases include property acquired through lease-purchase arrangements and property purchased by subgrantees.
- Their responsibility for acting on recommendations of and correcting problems identified by the Labor Inspector General, independent auditors, and prime sponsors' independent monitoring units.

INCORRECT PAYROLL PAYMENTS AND
OTHER QUESTIONABLE EXPENDITURES
AND ACCOUNTING PRACTICES

In examining local management activities, we noted (1) a number of expenditures that appeared not to comply with program regulations and (2) other questionable accounting or recordkeeping practices. We did not always determine the causes of these problems because of the limited scope of our examination in the following areas. However, we believe their presence indicates a need for increased attention by Labor and prime sponsors to the appropriateness of costs charged to the CETA program and the adequacy of recordkeeping systems.

Incorrect payroll payments

We examined in detail 707 participant payments totaling \$63,118 for one payroll period at five prime sponsors ^{1/} and identified both under and overpayments amounting to \$1,601.

Each prime sponsor usually paid participants through a central payroll unit operated by either the prime sponsor or one of the subgrantees. Our examination involved participants in two activities.

- Classroom training: Training designed to provide skills and information required to perform a specific job or group of jobs.
- Work experience: Short-term or part-time work assignments designed to develop skills and improve work habits for individuals who have never worked or have not worked in a long time.

Payments were made to 3,080 participants at the five sponsors during the pay periods we sampled. Of these, 2,503 were in training programs and 577 were in work-experience programs. Our total sample for one pay period at each sponsor involved 884 participants. Out of the 884 selected, supporting records were available at the work or training sites for 707. We compared time-and-attendance reports sent to the payroll unit with the daily time-and-attendance records retained at the work or training sites. The table below shows that 103 participants, 68 in training and 35 in work experience, were incorrectly paid.

^{1/}We reviewed participant payroll systems at the Cincinnati, Ohio; Kansas City, Kansas; Kansas City, Missouri; Hudson County, New Jersey; and Philadelphia, Pennsylvania, prime sponsors.

<u>Prime sponsor</u>	<u>Training participants</u>		<u>Work-experience participants</u>	
	<u>With supporting records</u>	<u>Paid in error</u>	<u>With supporting records</u>	<u>Paid in error</u>
Philadelphia, Pa.	170	19	49	5
Cincinnati, Ohio	115	0	72	14
Kansas City, Mo.	90	34	40	12
Hudson County, N.J.	83	1	10	4
Kansas City, Kans.	<u>78</u>	<u>14</u>	<u>(a)</u>	<u>—</u>
Total	<u>536</u>	<u>68</u>	<u>171</u>	<u>35</u>

a/This sponsor did not have a work-experience program.

Incorrect payments to training participants included overpayments of \$638 to 60 participants and underpayments of \$17 to 8 participants. Incorrect payments to work-experience participants included overpayments of \$782 to 25 participants and underpayments of \$164 to 10 participants.

It appeared that few of the payroll errors were caused by the payroll unit staff. The greatest chance for error occurred at the worksites where the supervisors generally filled out a payroll unit furnished timesheet to show the hours worked by the participant. If no daily attendance records existed, the supervisor had to rely on memory and the chance for error increased. Counselors merely picked up the timesheets, which were used to compute participant paychecks, and generally did not try to verify the correctness of information transferred from daily attendance records. Instead, the counselors relied on the accuracy of the supervisor.

In other instances, improper payments occurred because supervisors or instructors allowed participants to receive pay for hours when they were absent. For example, one supervisor, without getting approval, allowed a half day off with pay for participants who had not missed any training the previous week.

Furthermore, daily time-and-attendance records were not maintained at work sites for 177 (or 20 percent) of the participants in our sample. Of these, 161 were work-experience participants and 16 were training participants. Under these circumstances, a greater risk of error exists because payroll transactions are not supported by attendance records.

Nonallowable costs

Labor's regulation (20 CFR 676) provides that, to be allowable, a cost must be necessary and reasonable for proper and efficient administration of the program and that costs are allocable to the extent that they benefit the program. In addition, Office of Management and Budget (OMB) Circulars A-87, A-102, A-110, and

A-122 contain provisions on allowable costs. Despite these provisions, we identified costs charged to the CETA program that did not appear to comply with Labor's regulations and/or the OMB circulars at the following prime sponsors and their subgrantees.

Kansas City, Kansas

The Kansas City, Kansas, prime sponsor leased a copier and a typewriter on lease-purchase agreements. The lease-purchase agreements were converted to installment purchase contracts, which included \$2,169 in finance costs being charged to the CETA grant. We brought this to Labor's attention, and in November 1980, a Region VII official advised the sponsor that the acquisition of the copier and related finance costs were not approved. The sponsor was also notified that the finance costs on the typewriter were not approved.

Kansas City and one of its subgrantees previously used about \$1,500 of CETA funds to provide coffee daily to their staffs. However, a prime sponsor official told us that this practice had been discontinued. Another Kansas City subgrantee paid about \$1,350 to its accountant over a 7-month period for a computer printout of the subgrantee operations. Ten percent of the printout cost (\$135) was allocated to the CETA program. According to the program director, the CETA programs are not included in this printout and CETA receives no benefit from them. The director said he intended to discontinue the use of this printout.

Kansas City, Missouri

The Kansas City, Missouri, prime sponsor purchased ball point pens costing \$500 to give away at a building dedication. The building was not built with CETA funds, but is used as a skill training center for CETA participants. When asked about the propriety of charging this item to the CETA program, a prime sponsor official had no comment. The sponsor also paid a total of \$269 for membership fees to professional organizations for seven individuals. OMB Circular A-87 provides that such memberships are allowable only when the membership is for the agency. One subgrantee of this prime sponsor used \$613 of CETA funds to pay for a staff Christmas party and \$1,000 to stock vending machines. A sponsor official agreed that using CETA funds for a subgrantee staff Christmas party was not appropriate. She said, however, that the sponsor agreed with using CETA funds to stock the vending machines because participants needed eating facilities.

Another Kansas City, Missouri, subgrantee charged the CETA program for staff salaries in excess of the staff members' annual salary rates.

--The subgrantee's administrative assistant was paid about \$9,000 under two CETA contracts. Her duties included keeping the subgrantee's books and records.

She received an additional \$700 under a separate provision of one of these CETA contracts for book-keeping services for the CETA program. Her time-and-attendance records showed no overtime worked. A prime sponsor official said he would bring this to the attention of the contract auditor.

--The subgrantee was funded by the CETA program, the local United Way, and the Law Enforcement Assistance Administration. A grant from the Law Enforcement Assistance Administration provided for 100 percent of the project director's salary from March 1978 through March 1980. A CETA contract provided for 20 percent of the director's salary from October 1978 through May 1979. During the 8 months the projects overlapped, the director received 120 percent, or \$1,600 more than the stated salary. A prime sponsor official said he would send a letter to the Law Enforcement Assistance Administration agency and try to determine the appropriate payments of the director's salary.

Montgomery County, Pennsylvania

The Montgomery County prime sponsor procured word processing equipment and signed an installment payment agreement for \$24,574, including \$4,662 in finance charges. A Montgomery County subgrantee purchased a copier for \$4,261 and financed it through a local bank. The subgrantee charged \$511 in interest costs to the CETA program. The same subgrantee charged CETA \$1,595 in finance charges incurred on the purchase of four typewriters. A sponsor official agreed that finance charges are not allowable costs and requested the subgrantee to refund all finance charges previously billed. This subgrantee also allocated 100 percent of its utility bills to the CETA program even though the subgrantee's building also housed a county-funded day care center. The subgrantee claimed utility costs of \$33,122 for fiscal year 1980. A prime sponsor official advised the subgrantee in April 1981 to refund all overbilled utility charges for fiscal year 1980. Another subgrantee billed CETA \$142 for coffee supplies for its staff.

Philadelphia, Pennsylvania

A Philadelphia subgrantee did not have an equitable basis for allocating service costs to its funding sources. This subgrantee incurred \$4,709 of these costs. CETA provided the subgrantee with 52-percent funding, but was charged 81 percent of the costs. One funding source was not allocated any of these costs, and another, which provided 42 percent of the subgrantee's funds, was allocated only 19 percent of these costs. Subgrantee officials agreed to develop allocation formulas which would provide for equitable allocation of these costs to the funding sources.

Incomplete and unauditabile
financial records at subgrantees

Labor regulations require subgrantees to provide accurate, current, and complete reporting of all financial results, accounting records supported by source documentation, and controls over program resources. Nevertheless, two subgrantees' accounting and financial records were incomplete and unauditabile, and their expenses were not accurately reported to the prime sponsor. Five subgrantees, including the two previously mentioned, did not adequately document their expenditures, control undelivered payroll checks, or control other program expenditures. The conditions we found, our actions, and those of the sponsors are described below.

One subgrantee at each of two prime sponsors did not maintain complete and accurate financial accounting records, so we were not able to do all segments of our review at these locations. We discussed the status of the subgrantees' records with sponsor officials. In addition, one sponsor's contract auditors later reported that the subgrantee's records were unauditabile. The sponsor has not entered into any new contracts with this subgrantee because of the subgrantee's fiscal and programmatic problems. Contract auditors for the other subgrantee said that records and documentation were missing. The second prime sponsor is working with this subgrantee to establish adequate financial records and to hire a new fiscal officer. This should enable the subgrantee to continue participation in the program.

Two subgrantees responsible for participant payrolls did not have adequate procedures to deal with unclaimed payroll checks. As a result, the subgrantees retained over \$8,500 in unclaimed checks, some of which were more than 6 years old. The funds were identified as having been disbursed, and the subgrantees had been reimbursed for these expenses. The Cincinnati, Ohio, subgrantee had 69 unclaimed payroll checks totaling \$2,200 from 1974-80. Subgrantee officials agreed to void the old checks, reclaim the funds from the payroll unit, and initiate a system to handle unclaimed checks in the future. The Kansas City, Missouri, subgrantee had \$6,307 in 241 unclaimed checks for the 3-year period ended September 30, 1980. Prime sponsor officials advised us that the unclaimed checks would be reviewed and the amounts of any canceled checks would be recovered from the payroll unit.

Other subgrantees submitted requests and were reimbursed by prime sponsors based on expenditures that were not properly documented. Without this documentation, neither the sponsors nor the auditors can ascertain whether the costs incurred were necessary and reasonable for carrying out CETA objectives. For example, one subgrantee could provide no documentation to support \$338 expended for gasoline purchases. The same subgrantee recorded a \$330 expenditure for gasoline twice. Two checks were written to the payee, but only one was cashed. Both entries were recorded as program expenditures and submitted to the sponsor for reimbursement. A

second subgrantee paid two invoices totaling \$2,200 based on an oral request for payment from the vendor. The subgrantee submitted these payments to the sponsor and was reimbursed. Another subgrantee submitted claims amounting to \$545 for reimbursement of gasoline purchases with only cash tickets in support. The cash tickets did not identify the amount of gasoline purchased or the vehicle for which it was purchased. Costs that are not adequately supported may be disallowed by the sponsor. However, if the subgrantee has no other source of funds, the sponsor may be unable to recover the moneys. Events such as this highlight the importance of having proper documentation before making reimbursements.

Expenditures exceed
contract budgets

Some subgrantees continued to spend program funds even though they had exceeded amounts allowed within their subgrantee contract budget. Moreover, prime sponsors sometimes made retroactive approval of such expenditures, and in one instance, the sponsor did not approve a contract until the project authorized by the contract was nearly completed. These conditions, which were observed at seven subgrantees, are explained in more detail below.

- The budget approved by the prime sponsor provided \$10,224 for rental of 36 typewriters. The subgrantee rented 44 typewriters for an annual rental fee of \$17,403 without obtaining the sponsor's prior approval.
- A budget approved by the prime sponsor for fiscal year 1980 provided for \$893,681 for wages, but the subgrantee claimed \$927,159. The contract auditor questioned \$33,478 of wages claimed (\$927,159 minus \$893,681) and an additional \$5,566 in associated fringe benefits. At the completion of our review, the sponsor was resolving the questioned costs.
- A subgrantee paid its executive director, its director, and an instructor/accountant \$9,800 above the amount shown in the budget approved by the prime sponsor for these positions. The sponsor retroactively approved all but \$1,400 of the \$9,800. The \$1,400 was identified as consultants' fees and, as such, was not an allowable charge by a member of the subgrantee staff.
- A subgrantee paid six of eight staff members amounts ranging from \$50 a month to \$648 a month more than was authorized by its contracts. The prime sponsor was aware of these pay increases but took no action during the contract period to amend the contract.

- A subgrantee paid 5 of 54 employees amounts totaling \$2,400 more than was authorized by its contract budget. A prime sponsor official said that such changes should not be made without sponsor approval.
- A prime sponsor entered into three contracts with one subgrantee for the fiscal year beginning October 1, 1979. However, the sponsor did not complete the contracts until July 28, 1980, about 10 months later. Thus, the contracts did not act as an effective control over CETA expenditures for most of the contract year. The sponsor's independent monitoring unit recommended in July 1980 that contracts be signed before the contract year begins. The sponsor was attempting to correct this problem for each of its 130 contracts in fiscal year 1981.
- A prime sponsor had approved two contracts with a subgrantee which provided for reimbursement of the same costs. One contract required the sponsor to reimburse the subgrantee for all costs incurred for its computer unit. Another contract required the sponsor to reimburse the subgrantee 35 cents for each check processed by the computer unit, plus \$1,080 for maintenance and programing. The subgrantee was reimbursed \$8,080 in December 1979 for the second contract. We were later advised by the subgrantee's comptroller that the appropriate adjustment had been made.

Failure to make lease-or-buy analyses

OMB circulars and Department of Labor regulations (OMB Circulars A-102, A-110, attachment 0, and 41 CFR 29-70.216) require lease-or-buy analyses when appropriate. They also require documentation of a procurement action's significant history. However, Labor has not given prime sponsors or subgrantees guidance on how or when to make such analyses. As a result, sponsors and subgrantees often failed to make or document detailed lease-or-buy analyses. Examples where detailed lease-or-buy analyses should have been made, but were not, are shown below.

- The Kansas City, Kansas, prime sponsor purchased a copying machine for \$4,120 in fiscal year 1980.
- The Hudson County, New Jersey, prime sponsor rented five copying machines for \$16,656 and four automobiles for \$16,231 during fiscal year 1980.
- The Philadelphia prime sponsor rented two automobiles for an estimated annual rental of \$5,424 during fiscal year 1980.

- In August 1980, a Columbus, Ohio, subgrantee rented five tractor-trailer trucks for a year for a projected \$183,000.
- A Hudson County, New Jersey, subgrantee bought 40 typewriters for \$24,520 in fiscal year 1980.
- A Montgomery County, Pennsylvania, subgrantee leased 44 typewriters for \$17,403 in fiscal year 1980.
- A second Montgomery County, Pennsylvania, subgrantee leased furniture for a year and paid \$6,408 with its CETA funds. At the end of the lease period, the agency planned to buy the furniture for itself for about \$550. According to a subgrantee official, the prime sponsor encourages leasing instead of buying.

Lease-or-buy analyses, when made, varied at the sites we visited. At the Balance of State, Missouri, prime sponsor, the property officer told us lease-or-buy decisions are made on a case-by-case basis. In making their analyses, officials consider such factors as length of contract, comparative prices of leasing or buying, date equipment is needed, and length of time needed. At a Balance of State, Missouri, subgrantee, officials said they understood the sponsor would not approve the purchase of office machines, such as typewriters or calculators, so they leased them. However, sponsor officials said they routinely approve such procurements.

Officials at the Columbus, Ohio, prime sponsor said they consider alternative procurement methods, but they do not document the considerations. Subgrantees in Columbus told us they informally evaluate lease-or-buy alternatives, but major procurements are ultimately approved by the sponsor. The subgrantees gave us reasons for the procurement method used for some items, including a copying machine, a word processor, and the five tractor-trailer trucks. The copying machine was rented because of a sponsor policy to rent rather than purchase; the word processor was bought because leasing costs too much; and the tractor-trailers were rented because of uncertainties about CETA's continuation.

A Montgomery County subgrantee followed a policy of leasing rather than buying office furniture. As noted above, this enabled the subgrantee to lease equipment for 12 months with CETA funds, then pay the 13th month's fee from its own funds, thereby taking title to the equipment.

The General Services Administration has established guidelines for Federal agencies which outline factors to consider in lease-or-buy analyses and which give examples of how to make cost comparisons (41 CFR 101-25.5). These guidelines could be followed by grantees or used by Labor in developing guidelines for its grantees.

Conclusions

Prime sponsors and subgrantees are required to have procedures for determining the reasonableness, allowability, and allocability of costs charged to the CETA program and sufficient auditable records to support expenditures of CETA funds. In addition, sponsors are responsible for ensuring that their accounting practices and those of their subgrantees are adequate to provide accurate and complete data about the costs incurred in operating CETA programs. Also, we believe sponsors should not make retroactive amendments to contract budgets or otherwise approve subgrantee expenditures which exceed budgeted amounts, unless the subgrantee can effectively demonstrate that delaying the expenditure until approval could be obtained would have been detrimental to the program.

Some of the conditions identified at the prime sponsors examined in this review may later be noted and corrected as a result of normal CETA financial and compliance audits. We believe, however, these sponsors need to pay more attention to the appropriateness of costs charged to the CETA program and the adequacy of their recordkeeping systems.

Recommendation

We recommend that you direct the responsible regional offices to take steps to recover funds expended for nonallowable items or purposes.

PRIME SPONSORS AND SUBGRANTEES VISITED

Area Manpower Planning Council of Philadelphia, Pennsylvania:
 Negro Trade Union Leadership Council
 Philadelphia Opportunities Industrialization Centers
 National Union of Hospital and Health Care Employees,
 District 1199C

Balance of Hudson County, New Jersey:
 Hudson County Community College
 City of Hoboken

Balance of State, Missouri:
 Economic Opportunity Corporation of Greater St. Joseph,
 Missouri
 Missouri Ozarks Economic Opportunity Corporation,
 Richland, Missouri
 Missouri Valley College, Marshall, Missouri

Cincinnati City, Ohio:
 Community Action Commission
 Citizens Committee on Youth
 Cincinnati Institute of Justice

Columbus Franklin County Consortium, Columbus, Ohio:
 Columbus Board of Education
 Columbus Urban League
 Columbus Metropolitan Area Community Action Organization

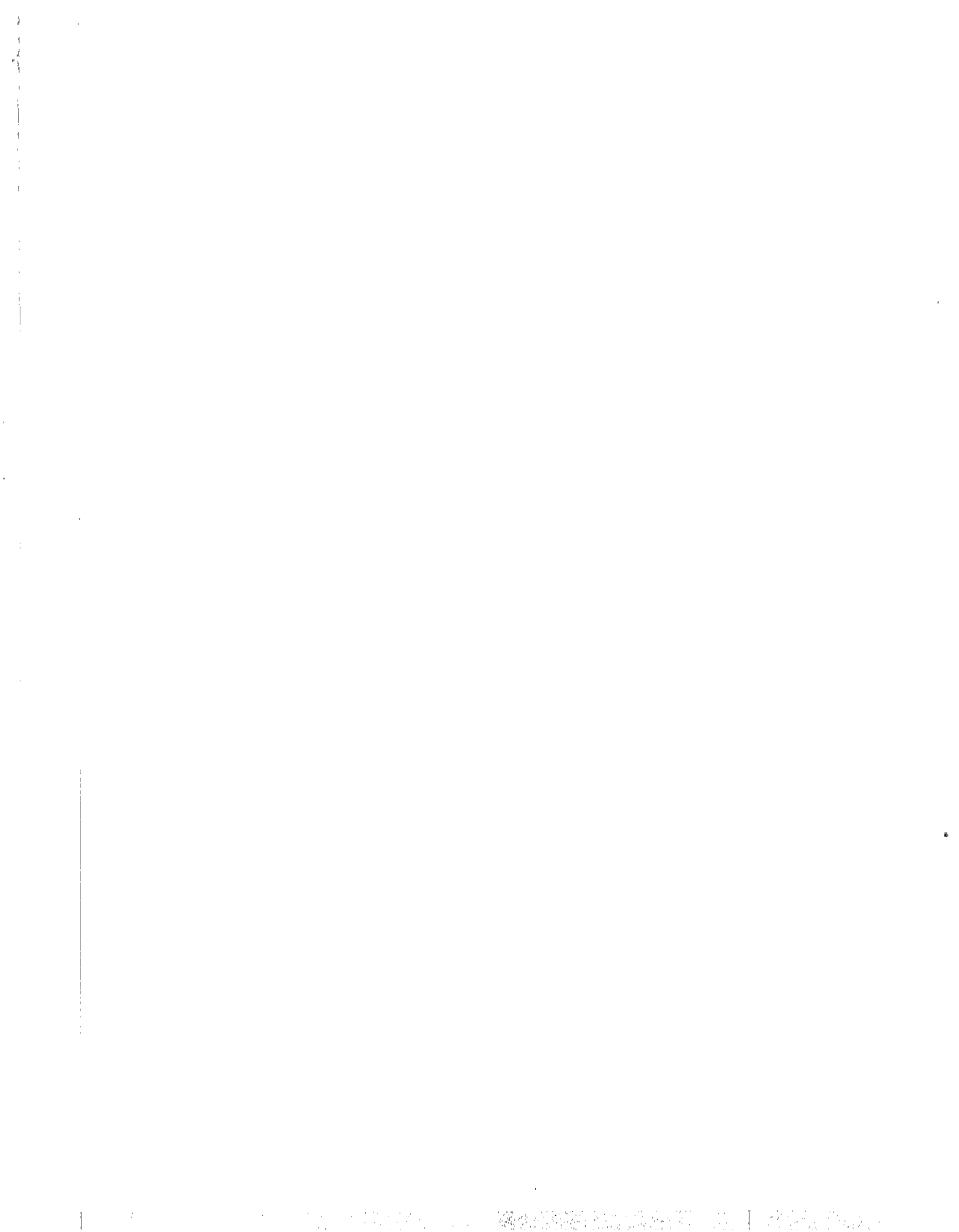
Kansas City Area Employment and Training Consortium, Missouri:
 Opportunities Industrialization Center
 Urban Civic Services 1/
 Coaches Council 1/

Kansas City, Kansas, Wyandotte County Consortium:
 Economic Opportunity Foundation, Inc.
 Black Motivation Training Center
 Community Service Center, Inc.

Montgomery County, Pennsylvania:
 Eagleville Hospital and Rehabilitation Center
 Valley Center Inc. for Mental Health
 Montgomery County Opportunities Industrialization Center

1/No longer in business as a subgrantee.

(205018)



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