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UNITED STATES
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REPORT TO THE CONGRESS

BY THE COMPTROLLER GENERAL
OF THE UNITED STATES



Administration Of Federal Assistance Programs -- A Case Study Showing Need For Additional Improvements

The Office of Management and Budget
and Other Federal Departments

Weak administrative controls and practices permitted a private, nonprofit foundation to circumvent the limitations on the use of Federal funds and to improperly obtain Federal funds for family-planning and other assistance program services. Weaknesses stemmed from diverse and inconsistent administrative requirements and precluded Federal agencies from effectively evaluating the foundation's system of accounting and internal fiscal controls.

Although actions are being taken to overcome some long-recognized problems in administering multifunded assistance programs, additional Government-wide and individual agency actions are needed.

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

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To the President of the Senate and the
Speaker of the House of Representatives

This case study describes the origin, growth, and demise of a private, nonprofit organization. From September 1966 to May 1974 the organization operated Federal assistance programs to provide family-planning and other services in Louisiana and conducted a research project in Latin America. The report recommends actions to improve the administration of significant, but undeterminable, amounts of assistance program funds that private, nonprofit organizations and individuals can obtain directly and indirectly from multiple Federal sources. The Congress should consider eliminating some domestic programs providing funds for family-planning services.

At the request of several Louisiana Members of Congress, we agreed to assess whether the Department of Health, Education, and Welfare adequately audited the organization and, if warranted, to evaluate how the Government was administering funds going to the organization. We made our review pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

We are sending copies of this report to the Director, Office of Management and Budget, and to the Secretaries of Health, Education, and Welfare; Housing and Urban Development; and State.

James B. Stacks

Comptroller General
of the United States

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ABBREVIATIONS

AID	Agency for International Development
GAO	General Accounting Office
HEW	Department of Health, Education, and Welfare
HUD	Department of Housing and Urban Development
OEO	Office of Economic Opportunity
SRS	Social and Rehabilitation Service
SSA	Social Security Administration

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

ADMINISTRATION OF FEDERAL
ASSISTANCE PROGRAMS--
A CASE STUDY SHOWING NEED
FOR ADDITIONAL IMPROVEMENTS
The Office of Management and Budget
and Other Federal Departments

D I G E S T

REASON FOR STUDY

Over a 7-year period, a private, nonprofit foundation obtained funds under Federal programs to provide family-planning and other health services. As a result of several public allegations that the foundation improperly managed Federal funds, the Department of Health, Education, and Welfare (HEW)--the primary Federal funding agency--audited the foundation's funding. In addition, a Federal grand jury indicted some foundation officials, and a Federal court placed the foundation in receivership. (In receivership, a person appointed by the court receives the assets of the business and must strictly account for them to the court.)

GAO agreed to review the adequacy of the HEW audit and the Federal administration of funds provided to the foundation.

STUDY RESULTS

According to HEW's audit, the foundation did not have an effective system of accounting and of internal controls over the use of Federal funds. (See ch. 2.) Many factors enabled the foundation to circumvent limitations on the use of Federal funds and to improperly obtain Federal funds.

There were weaknesses in:

--Administrative requirements of the funding programs.

--Preaward evaluation of the foundation's ability to manage money. (See pp. 19 and 20.)

--Federal guidance and regulations. (See pp. 20 and 21.)

--Fiscal monitoring and auditing, which was neither effective nor prompt. (See p. 25.)

The diverse requirements of multiple Federal sources of funding precluded coordinated management of Federal funds. (See pp. 31 to 33.)

Federal weaknesses in administering financial assistance programs have long been recognized and the Congress and executive agencies have tried to correct these weaknesses. More needs to be done.

RECOMMENDATIONS TO THE DIRECTOR,
OFFICE OF MANAGEMENT AND BUDGET

The Director should revise the proposed uniform administrative requirements for Federal grants, contracts, and other agreements with public and private institutions of higher education; public and private hospitals; and private, nonprofit organizations. Federal agencies should be required to insure that:

--Potential fund recipients be aware of fiscal accountability requirements.

--The recipients' accounting systems and internal controls comply with these requirements.

--Periodic audits include all Federal funding.

--Copies of audit reports and related correspondence be furnished by the audit organization to each funding source.

RECOMMENDATIONS TO THE SECRETARY OF HEW

The Secretary should seek out State and local family-planning programs which might be appropriate for joint funding as provided for by the Joint Funding Simplification Act of 1974. The Secretary should continue efforts to insure that grantee and

contractor fiscal accountability is given the same importance as program effectiveness.

MATTER FOR CONSIDERATION
BY THE CONGRESS

The Congress should consider reducing the number of domestic programs providing funds for family-planning services to two--the Medicaid program and a direct service program for people who, because of financial or other factors, do not have access to family-planning services.

The Federal agencies generally agree with GAO's recommendations, except that:

- The Office of Management and Budget feels that regulatory requirements for periodic audits do not need to include all Federal funding, because progress is being made in carrying out the existing policy--the primary funding agency takes the initiative to determine the feasibility of having one agency audit for all.
- HEW says that using the joint-funding concept is not practical in the situation discussed in the report.

CHAPTER 1INTRODUCTION

Federal assistance to State and local governments expanded dramatically during the last 15 years--from about \$7 billion to the \$60.5 billion estimated for fiscal year 1977. While the nearly 1,000 individual programs provide a wide range of activities to improve Americans' daily lives, redtape, delays, and vast amounts of paperwork are common to most Federal assistance programs. Each program has unique requirements for eligibility, application, or administration. Because many new programs are developed without regard to existing ones, similar programs frequently have inconsistent requirements. Many of these programs are available to the 50 States; nearly 80,000 units of local government; other public and private, nonprofit organizations; and individuals.

This case study concerns the Family Health Foundation, ^{1/} DLG 01194 a private, nonprofit corporation headquartered in New Orleans, Louisiana. The foundation was one of an undeterminable number of private organizations which obtain funding directly and/or indirectly from multiple Federal sources.

From its inception until it was placed in receivership ^{2/} in May 1974, the foundation obtained at least \$53.6 million in Federal funds under 10 assistance programs administered by 9 Federal agencies. It obtained about \$17 million directly through grants and contracts with Federal agencies and about \$36.6 million indirectly from Federal agencies through grants and contracts with 12 public and private intermediary organizations. About 76 percent of its total Federal funding was for family-planning services throughout Louisiana; the rest, for other health-related services.

FOUNDATION PROGRAMS

The foundation had five basic programs: (1) the Louisiana Family Planning Program, (2) the Neighborhood Health Clinics

^{1/}The foundation was originally incorporated in September 1966 as Louisiana Family Planning, Inc., and underwent several name changes. It was renamed the Family Health Foundation in March 1972.

^{2/}A person appointed by the court receives the assets of the business and must strictly account for them to the court.

Program, (3) the International Program, (4) the Parent-Child Development Program, and (5) the Research, Development, and Training Program. The direct and indirect Federal funding for these programs, during the period when it began receiving Federal funds through April 1974, is shown in the following table.

Estimated Federal Funding to
Family Health Foundation January 1967 through April 1974

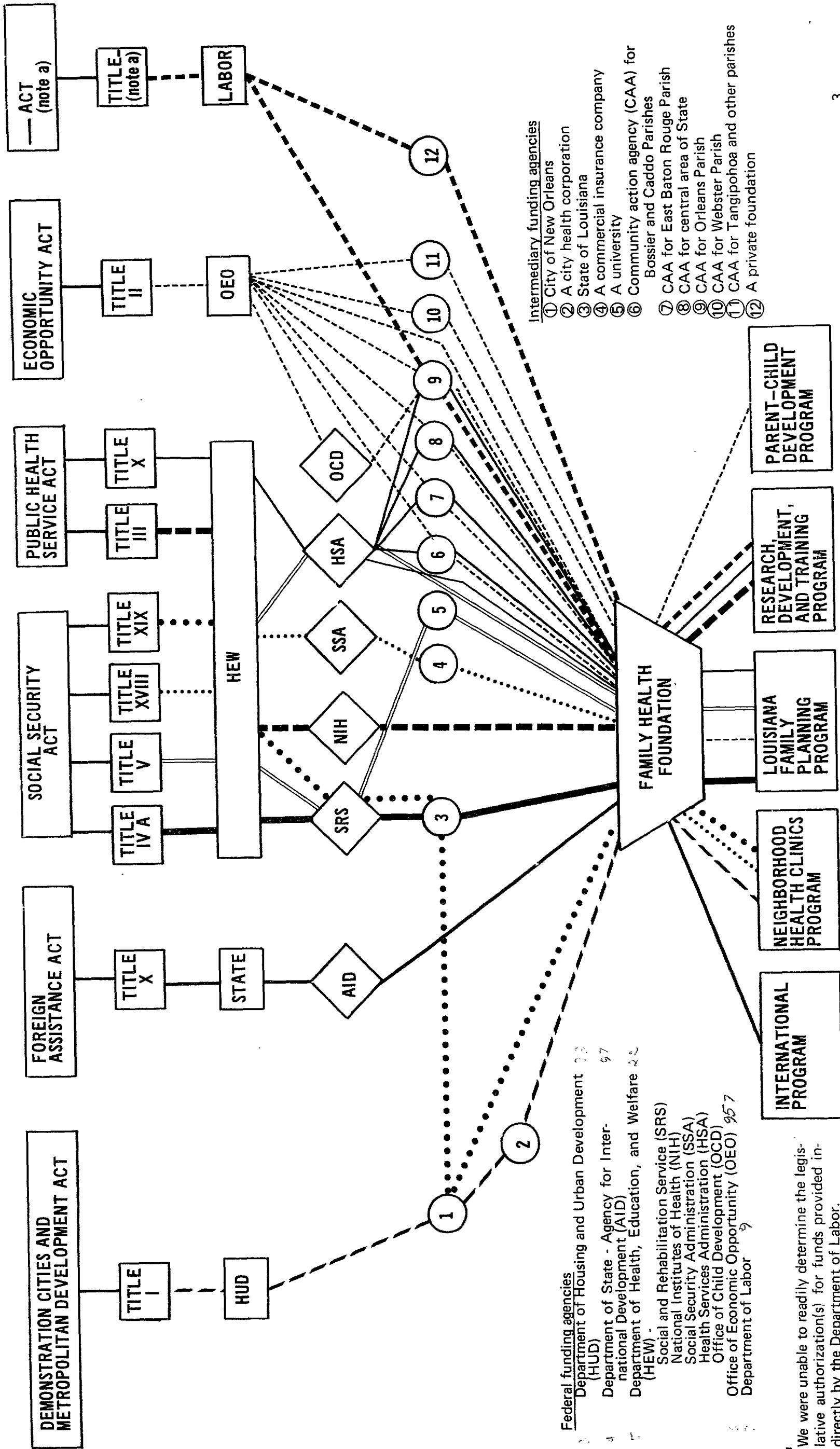
Programs and legislative authorizations (note a)	Amount		
	Direct	Indirect	Total
Louisiana Family Planning Program:			
Title II--Economic Opportunity Act	\$ 1,516,789	\$ 5,979,746	\$ 7,496,535
Title IV-A--Social Security Act	-	14,464,465	14,464,465
Title V--Social Security Act	11,112,085	-	11,112,085
Title X--Public Health Service Act	<u>2,554,519</u>	<u>4,834,855</u>	<u>7,389,374</u>
Total	<u>15,183,393</u>	<u>25,279,066</u>	<u>40,462,459</u>
Neighborhood Health Clinics Program:			
Title I--Demonstration Cities and Metropolitan Development Act	-	6,585,173	6,585,173
Title XVIII--Social Security Act	-	4,171	4,171
Title XIX--Social Security Act	-	<u>835,715</u>	<u>835,715</u>
Total	-	<u>7,425,059</u>	<u>7,425,059</u>
International Program:			
Title X--Foreign Assistance Act	<u>1,543,091</u>	-	<u>1,543,091</u>
Parent-Child Development Program:			
Title II--Economic Opportunity Act	-	<u>1,772,347</u>	<u>1,772,347</u>
Research, Development, and Training Program:			
Title II--Economic Opportunity Act	-	604,585	604,585
Title V--Social Security Act	-	993,392	993,392
Title III--Public Health Service Act	6,783	-	6,783
Title X--Public Health Service Act	247,742	112,570	360,312
Other--Department of Labor (note b)	-	<u>415,140</u>	<u>415,140</u>
Total	<u>254,525</u>	<u>2,125,687</u>	<u>2,380,212</u>
Total	<u>\$16,981,009</u>	<u>\$36,602,159</u>	<u>\$53,583,168</u>

a/See app. I for further information on how the foundation obtained funding.

b/We were unable to readily determine the legislative authorization(s) for funds provided by the Department of Labor.

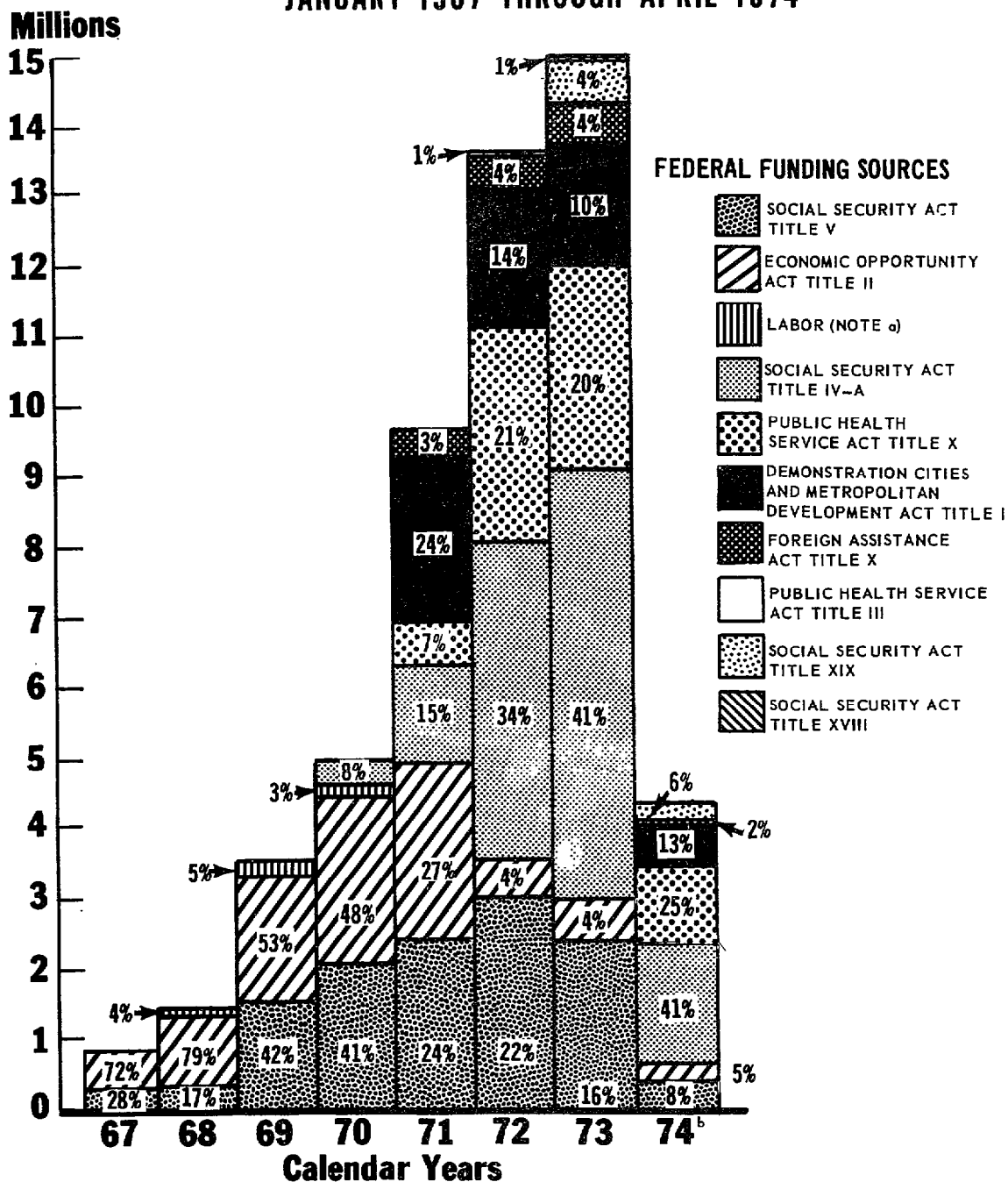
The following exhibits illustrate the maze of channels through which the foundation received Federal funds and the rapid growth of such funds.

FAMILY HEALTH FOUNDATION'S DIRECT AND INDIRECT FEDERAL FUNDING SOURCES



^a We were unable to readily determine the legislative authorization(s) for funds provided indirectly by the Department of Labor.

FAMILY HEALTH FOUNDATION'S FEDERAL FUNDING SOURCES JANUARY 1967 THROUGH APRIL 1974



^a WE WERE UNABLE TO READILY DETERMINE THE LEGISLATIVE AUTHORIZATION (S) FOR LABOR FUNDS

^b 1974 DATA IS NOT COMPARABLE TO EARLIER YEARS BECAUSE THE BAR REFLECTS FUNDING ONLY THROUGH APRIL 1974, AFTER WHICH THE FOUNDATION WAS PLACED INTO RECEIVERSHIP.

Louisiana Family Planning Program

The Louisiana Family Planning Program grew out of studies conducted in 1964 and 1965. These studies, which were financed by the Department of Health, Education, and Welfare (HEW) through research grants under title V of the Social Security Act (42 U.S.C. 712), surveyed patterns, attitudes, and knowledge of residents in New Orleans and Lincoln Parish (or county) concerning fertility and family planning. On the basis of these studies, the foundation was formed in September 1966 and established a goal of providing family-planning services to all low-income persons in Louisiana who wanted and needed them. Under the program, participants were provided family-planning information, contraceptives, and related medical services. With the aid of various Federal funds, the foundation expanded from serving a single parish to serving the entire State with 148 clinics.

The foundation's initial Federal funding in January 1967 came from a Louisiana community action agency. This agency was funded under title II of the Economic Opportunity Act, which was administered by the Office of Economic Opportunity (OEO). The funds were obtained to conduct a 3-month study of the feasibility of a family-planning services program in New Orleans. With additional OEO funding beginning in April 1967--also through the community action agency--the foundation started services in New Orleans. Services under OEO title II funding were to be made available only to persons who met OEO's low-income criteria.

By mid-1968 five other Louisiana community action agencies, also funded under title II, contracted with the foundation to deliver family-planning services in their communities. In addition, the foundation obtained a direct OEO grant beginning in July 1968 to provide family-planning services in 11 other parishes. Direct and indirect OEO funding continued until late 1971 when HEW began to assume responsibility for funding these projects.

To expand family-planning services to all parishes in the State, including those funded by OEO under title II, the foundation began receiving direct grants from HEW under title V of the Social Security Act in April 1969. Although title V funds were programed to serve residents of low-income areas, no specific client eligibility requirements existed for services available.

Beginning in July 1970 the State, with HEW concurrence, entered into four contracts with the foundation to offer statewide family-planning services. The contracts were

funded primarily by HEW under part A, title IV, 1/ of the Social Security Act, which required that such services be provided to present welfare recipients and, at the option of the State, to former and potential welfare recipients. The State chose to provide family-planning services under this program to present or potential welfare recipients. Therefore, its contracts with the foundation limited eligibility to persons the State identified as meeting this criteria.

In November 1971 HEW began making direct grants to the foundation, under title X of the Public Health Service Act. By January 1972, HEW had also begun providing title X funds indirectly through community action agencies for the family-planning projects initially funded by OEO. Patient eligibility was not restricted under the title X program, but priority was to be given to low-income persons.

Neighborhood Health Clinics Program

In April 1971 the foundation began obtaining funds to provide comprehensive health services through three clinics in New Orleans. Initially, Federal funding for this program was administered by the Department of Housing and Urban Development (HUD) and flowed through a city demonstration agency and a citizens' organization. (See app. I.) These funds were authorized under the Model Cities Program, title I of the Demonstration Cities and Metropolitan Development Act of 1966 (42 U.S.C. 3301). Under the New Orleans Model Cities program, health services were specifically authorized for residents of three neighborhoods. The citizens' organization awarded the foundation a series of subcontracts to operate the three health clinics.

In addition to the HUD title I funds, the foundation's Neighborhood Health Clinics Program received reimbursement beginning in 1973 from HEW under Medicare, title XVIII (42 U.S.C. 1395 et seq.), and Medicaid, title XIX (42 U.S.C. 1396(a) et seq.), of the Social Security Act. Title XVIII and title XIX reimbursement was available for health services rendered by the foundation to residents who were eligible for such services under Medicare and Medicaid.

1/With the enactment of Public Law 93-647 (Jan. 5, 1975) social services (including family planning) authorization was transferred to title XX of the Social Security Act.

International Program

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In June 1971 the foundation obtained a 3-year grant from the Department of State under title X of the Foreign Assistance Act (22 U.S.C. 2219). The funds were to enable the foundation to develop programs to provide various services related to population growth in developing countries. The programs were to include feasibility studies in several Latin American countries. 32

To expand the foundation's activities to include designing, implementing, and evaluating model programs in selected Latin American countries, the Department of State awarded it a contract for additional title X funds in June 1973.

Parent-Child Development Program

In July 1968 the foundation began obtaining OEO's title II funds, through a community action agency, for its Parent-Child Development Program. The funds were originally administered by OEO and later by HEW. The foundation was to design and operate a project to train disadvantaged parents of infants through 3 years of age in the use of child-rearing methods to improve the children's preschool learning capabilities.

Research, Development, and Training Program

The Research, Development, and Training Program operated in conjunction with a university to:

- Evaluate the foundation's programs.
- Do research.
- Provide technical assistance to others seeking to duplicate the programs.
- Train program personnel, including those of the foundation, OEO, and HEW, responsible for administering family-planning programs.

The foundation got its Federal funding for this program from the following sources:

- Department of Labor training funds, 1/ through contracts with a local community action agency and a private foundation.

1/We could not readily identify the legislative authorization(s) involved in the funding obtained from Labor.

--HEW title III Public Health Service Act (42 U.S.C. 241) funds, through a direct contract for dental research.

--HEW title X funds, through contracts with a university to develop a self-instruction program for family-planning staffs.

--HEW title V funds, through a contract with a university for family-planning research.

BASIS FOR AND SCOPE OF REVIEW

The foundation received extensive favorable publicity and recognition by Federal officials, particularly for its innovative approaches and its reported achievements in its Family Planning Program. Beginning in 1971, however, several public and private entities questioned how the foundation managed Federal funds. In early 1973 HEW began an audit of the foundation's HEW-funded financial transactions, including an inquiry into specific allegations. A Federal grand jury was convened to investigate the foundation. Following HEW's audit findings and the grand jury's indictment of several foundation officials, the foundation was placed in Federal receivership in May 1974. Some of the foundation's activities were later continued by other organizations.

During the audit and grand jury investigation, considerable public controversy developed. At the request of several Louisiana Members of Congress, we agreed to assess the adequacy of the HEW audit and, if warranted, evaluate how the foundation administered Federal funds.

In assessing HEW's audit, we reviewed and discussed with the auditors the scope and procedures used in developing the report findings and, on a selective basis, traced information in the audit report to source documents.

To obtain additional facts for evaluating how the foundation accounted for and managed money, we interviewed HEW, HUD, Department of State, State, and city auditors and reviewed the results of 67 audits of the foundation by Federal and local audit agencies and independent public accounting firms. We did not, however, audit the foundation's accounting records because several audits had been recently completed or were in process by HEW, the Department of State, New Orleans, the State Legislative Auditor, and several independent public accounting firms and because a Federal grand jury had begun investigating the foundation's financial activities.

Our review of Federal and intermediary agencies' administration focused on the foundation's major sources of funds:

- Titles IV-A and V of the Social Security Act, administered by HEW.
- Title X of the Public Health Service Act, administered by HEW.
- Title I of the Model Cities Act, administered by HUD.
- Title X of the Foreign Assistance Act, administered by the Department of State.

We discussed fiscal administrative procedures with headquarters and regional officials of these Federal agencies and with officials of the State, the city, and selected other intermediaries. We examined legislation, regulations, grant and contract proposals and instruments, financial reports, correspondence, and related records of the Federal and intermediary funding agencies. We also made a limited review of OEO records concerning early indirect grants to the foundation.

CHAPTER 2

DEFICIENCIES IN THE FOUNDATION'S

FISCAL CONTROLS AND PRACTICES

The Department of Health, Education, and Welfare Audit Agency found, and we confirmed, that the foundation had not established an effective system of accounting and of internal fiscal controls over the use of Federal funds. As a result, as determined by the courts, the foundation:

--Circumvented the limitations on the use of Federal funds by (1) charging amounts above established limits to other fund accounts, (2) arbitrarily allocating costs among Federal accounts, and (3) inadequately documenting disbursements.

--Improperly obtained Federal funds by using inappropriate billing procedures and billing for items not delivered.

In addition, the HEW Audit Agency questioned the propriety of two other methods the foundation allegedly used to obtain Federal funds--transferring non-Federal costs to Federal accounts and entering into a series of transactions that resulted in the use of Federal funds to satisfy Federal matching requirements imposed on the State. The HEW Audit Agency made specific recommendations for recovering about \$2.7 million of family-planning funds from the State. Most of the recommended recovery involved costs incurred by the foundation and reimbursed by the State for activities not eligible for Federal funds. After the release of the HEW audit report, the State audited its funding of the foundation and identified additional activities for which the foundation received payment in Federal funds but which were not eligible for State reimbursement.

We did not develop sufficient information for evaluating the reasonableness of the money due the Government from the State. At the time of our review the matter was in dispute, and HEW and the State were negotiating a settlement. According to the State, in April 1976, it had negotiated a \$3.18 million settlement with HEW, pending appropriation of funds by the legislature. Similarly, we did not review further the two methods allegedly used to obtain Federal funds, because these matters were under criminal prosecution. (See p. 10.)

Although the practices reported by the HEW Audit Agency and confirmed by us had been reported by various audit organizations both to the foundation and to certain local and Federal administering agencies--in some cases as early as 1970--they persisted until the foundation was placed in receivership in May 1974.

FISCAL CONTROL REQUIREMENTS NOT MET

Because the foundation's programs were funded by multiple Federal sources, which placed different limitations on the uses of the funds, the foundation was obliged to establish a system of accounting and of internal controls that would insure the funds were used and accounted for according to these limitations. In other words, each funding source called for separate accounting. The foundation deposited all its funds in one principal bank account and, while it established subsidiary accounts to show the source of the total funds deposited, it did not establish a system of internal controls to assure that costs were charged to the proper accounts.

To illustrate, the foundation used the same personnel and clinics to provide family-planning services to patients eligible under titles IV-A, V, and X. Title IV-A funds could be used for all reasonable and necessary costs for authorized services, whereas title V and X funds were limited to specified amounts included in detailed budgets. HEW and other auditors found that the foundation had not established an adequate system for determining and distributing costs in relation to services funded by the respective sources.

LIMITATIONS ON USE OF FEDERAL FUNDS CIRCUMVENTED

Costs exceeding limitations charged to other accounts

The HEW auditors found that the foundation did not identify the costs of serving all types of eligible patients and did not allocate to each Federal account its share of such costs, consistent with budgetary and other limitations. Instead the foundation arbitrarily charged various costs to one Federal account or another. Title V and X accounts were generally charged up to their budget amounts for all types of costs authorized. Any costs not authorized or exceeding the budgeted limits were charged to other accounts.

HEW auditors reported that the foundation, as of July 1973, had charged about \$321,000 in costs to four non-Federal grant accounts, even though the subsidiary accounts showed that funds under these grants had been exhausted. The \$321,000 included costs normally ineligible for Federal reimbursement, such as costs for entertainment and unauthorized foreign travel. Because the four non-Federal grant accounts had no funds, HEW auditors concluded that other funds, primarily Federal, had been used for unauthorized purposes.

Five other audit organizations in 1972 and 1973 reported that the foundation charged costs to Federal grant accounts although all such funds had been spent. They reported that authorized Office of Economic Opportunity, Department of Housing and Urban Development, and HEW grant amounts had, at various times, been exceeded anywhere from about \$7,600 to \$196,000. Other funds in the principal bank account-- primarily Federal funds--were used to cover these deficits.

HEW and State auditors said whenever budget limits were exceeded or costs charged to a Federal grant account were later determined to be unallowable, foundation officials would simply transfer the excessive or unallowable costs to other grant accounts. They also said the many accounting adjustments and the practice of arbitrarily transferring costs from one grant account to another made auditing the foundation extremely difficult. City auditors, in their September 1973 report, agreed and added that their inability to readily isolate transactions and identify related supporting documents significantly hindered their ability to adequately audit the foundation's use of HUD grant funds.

Costs arbitrarily allocated among Federal accounts

In early 1970 the OEO regional auditor questioned the foundation's procedures for allocating costs to various grant accounts. He reported that salaries were not allocated to grant accounts in proportion to services rendered (even though various grant funds and different Federal agencies were involved) because foundation management decided that Family Planning Program salary costs would not be prorated, that is, allocated according to a predetermined formula. Instead, each employee's salary was charged entirely to the grant account to which most of the employee's time was reportedly devoted. Such procedures, the auditor reported, did not properly account for costs by funding source.

The foundation arbitrarily allocated costs to Department of State and HUD funds. For example, a January 1973 Department of State audit report stated that the foundation's accounting system used an inadequate method for allocating costs for part-time personnel and contract consultants. About \$90,000 was charged to separate grant accounts on the basis of estimated rather than actual time spent on specific projects. In another instance the foundation charged an administrative management fee of about \$200,000 to the HUD fund accounts. An independent public accounting firm reported in April 1973 that the charge was based on an arbitrary calculation; that is, the foundation neither accumulated costs common to more than one fund account nor determined a basis for allocation. In both examples, the auditors reported that the arbitrary allocations precluded determining the reasonableness and accuracy of such charges to the two Federal grant accounts.

Disbursements inadequately documented

In developing their findings, HEW auditors noted several instances where the foundation did not adequately document support to show that costs incurred in its activities benefited the Federal program funding the activities. For example, the lack of adequate support showing costs (HEW's title IV-A share was about \$174,000) incurred by the foundation for aircraft was a primary basis for including this amount in the audit report's recommendation that disallowed costs be refunded.

An independent public accounting firm examined the combined financial statements of the foundation for the year ended December 31, 1972. The resulting audit report, issued to the foundation in December 1973, did not comment on whether the financial statements developed from the foundation's accounting records presented the foundation's financial condition and operating results fairly. They did not express an opinion because documentation and advance approval of expenditures were lacking.

A city audit staff, in its 1973 audit report on the foundation's HUD grant funds, said the financial statements included in its report did not fairly present the financial position of the HUD grant. This opinion was based on reported deficiencies in the foundation's accounting system, including inadequate documentation to support disbursements. These same grant funds were audited by an independent public accounting firm which refused to comment on the fairness of the financial statements. This independent public accounting report stated that the accounting system and internal controls of the foundation were inadequate.

FEDERAL FUNDS IMPROPERLY OBTAINED

Inappropriate billing
procedures used

Because the foundation lacked an appropriate cost accounting system to generate detailed billings for actual costs of services provided to title IV-A eligible clients, the State was periodically billed, and reimbursed for, a lump sum as the cost of serving title IV-A clients. This temporary procedure, begun in 1971, was still in use at the time the foundation was placed in receivership in May 1974.

The lump sums were based on reported data on (1) the ratio of title IV-A eligible clients contacted to the total individuals contacted for family-planning services and (2) the total recorded Family Planning Program costs for the billing period. HEW auditors reported, however, that during 1973 the foundation's title IV-A billings were overstated because of erroneous and inflated client data. For example, persons not identified by the State as current or potential welfare recipients were counted as title IV-A eligible clients, and title IV-A client statistics included instances where unsuccessful efforts to contact several potential clients at a single residence were reported as services rendered to several persons.

HEW auditors also noted that the total program costs shown on the title IV-A billings could not be reconciled with the foundation's accounting records until after the foundation retroactively adjusted the records to agree with the billings.

HEW auditors reported that the foundation's poor procedures for charging costs and billing the State for title IV-A reimbursements resulted in the foundation

- obtaining title IV-A funds for ineligible clients or clients not actually served,
- using title V and X grant funds to finance a disproportionate share of the direct costs of the foundation's Family Planning Program, and
- using title IV-A reimbursements to finance a disproportionate share of administrative and other costs which were not reasonable or necessary for providing family-planning services in Louisiana.

Costs billed for items not delivered

The foundation continually charged as expenses anticipated costs for goods and services at the time purchase orders were issued. This deficiency was reported by HEW and other auditors.

HEW auditors reported that the foundation claimed and received title IV-A reimbursement from the State for purchasing 37 modular, mobile family-planning clinics, 20 of which had not been built or delivered. As a result, the foundation received overpayments of \$700,000.

An independent public accounting firm advised foundation officials, in a confidential letter in February 1972, that charging anticipated costs at the time purchase orders were issued was not consistent with generally accepted accounting principles or Federal accounting standards. In its audit of the foundation's grants the following year, the firm noted that this practice had continued. For this and numerous other reasons, the firm did not express an opinion on the foundation's financial statements (see p. 15).

Another independent public accounting firm, reporting on its audit of HUD grants in April 1972, questioned the practice of billing for items not delivered and reported that this resulted in the foundation obtaining excessive cash. A May 1974 Department of State audit report on foreign assistance funds also commented on the foundation's inappropriate accounting for purchase orders.

OTHER QUESTIONABLE METHODS USED TO OBTAIN FEDERAL FUNDS

The HEW auditors reported that certain costs were retroactively transferred to the title IV-A accounts from two non-Federal grant accounts and that:

- These accounting adjustments restored balances in the two non-Federal grant accounts and allowed the foundation to charge them with funds provided to a university. The university then made donations in September 1971 and September 1972 to the State for use as non-Federal title IV-A matching funds.
- These manipulations of accounting records and fund transfers resulted in a \$2 million increase in the foundation's 1971-72 title IV-A contract and a \$2.1 million increase in its 1972-73 title IV-A contract.

- The foundation entered into contracts with a consulting firm in April 1973 and advanced the firm \$235,000 from its title IV-A account, reportedly to do management system studies.
- The consulting firm donated \$200,000 to an out-of-State foundation, which then donated \$200,000 to the university referred to above.
- The contracts and donations were all transacted at a single meeting during which checks were exchanged.
- The donation to the university was made with the understanding that it would later be donated to the State to satisfy the 10-percent, non-Federal, matching fund requirement for a \$1.8 million increase in the foundation's title IV-A contract.
- The use of any foundation funds to satisfy the non-Federal matching requirement was contrary to Federal regulations.

CHAPTER 3

FACTORS WHICH CONTRIBUTED TO DEFICIENCIES

IN FISCAL CONTROLS AND PRACTICES

Numerous factors enabled the foundation to circumvent limitations on the use of Federal funds without timely awareness by funding agencies. Requirements for managing the grants and contracts received by the foundation were basically weak, and effective monitoring was slow. Poor administration by individual funding agencies, combined with administrative problems which are inherent in multiple funded programs, allowed the foundation to manipulate and charge costs without regard to limitations.

FEDERAL AND INTERMEDIARY FISCAL MANAGEMENT WEAKNESSES

All phases of the fiscal administration of foundation programs were weak. Individual Federal or intermediary agencies did not:

- Make adequate preaward evaluations of the foundation's system of accounting and of related internal management controls.
- Clearly or consistently specify in contracts or in program guidance the criteria to be followed in spending Federal funds.
- Adequately monitor and audit the foundation's activities.

Some of the foundation's fiscal improprieties had been identified by audits as early as 1970. The Federal agencies were not assured that the audit deficiencies had been corrected. Adequate preaward assessment of the foundation's ability to manage money, adequate and consistent cost criteria, and monitoring the funding programs may or may not have prevented the foundation from circumventing Federal funding limitations and using improper methods to obtain such funds. However, they would have reduced the potential for such improprieties and allowed earlier detection of them.

No preaward evaluation of ability to manage money

Preaward evaluation of an organization's ability to manage money is intended to determine whether its accounting

system and related internal management controls are adequate and, when the organization is a recipient of Federal funds, whether its employees adequately understand Federal regulations and other administrative requirements related to use of and accountability for such funds. If the organization receives funds from various sources, the evaluation should also assure that the financial management system can properly control and account for funds by funding source. The foundation did not have such a system.

None of the funding agencies made an adequate onsite evaluation of the foundation's fiscal management system either before or shortly after initial grant or contract awards. Except for the Department of Housing and Urban Development, no agency required such an evaluation.

The Department of Health, Education, and Welfare funded the foundation under several legislative authorities. It did not make or require its intermediaries to make onsite evaluations of the foundation's fiscal management program before its initial grant awards under its title V (Apr. 1969), title IV-A (Sept. 1970), or title X (Nov. 1971) programs. The Department of State funding agency limited its assessment for its initial title X grant to telephone conversations with HEW and independent public accounting firm auditors who had recently audited various grants to the foundation. HUD required preaward assessments and published guidelines for them in its Model Cities Handbook. It made New Orleans responsible for these assessments. Documentation of the city's May 1971 assessments shows, however, that the city did not comply with the HUD guidelines.

Inadequacies and inconsistencies in Federal guidance and regulations

To some extent, the (1) unspecified allowable costs under HEW's title IV-A program and (2) the general inconsistency in allowable cost criteria and matching fund requirements for the other Federal programs contributed to the deficiencies in the foundation's fiscal management. The Social and Rehabilitation Service (SRS), HEW's administering agency for title IV-A, did not furnish adequate guidance to Louisiana about contracting for services with private, nonprofit organizations under the title IV-A program. As a result the contracts the State entered into with the foundation had several weaknesses. Applicable Federal regulations provided for SRS to reimburse the State for all "reasonable and necessary" costs but provided no firm basis on which to judge what was reasonable or necessary. The requirements of individual funding programs

varied as to (1) what constituted non-Federal matching funds and the non-Federal matching funds required and (2) whether overhead costs the foundation incurred were reimbursable.

Inadequacies in SRS administration

The following table shows the Louisiana-foundation contracts funded under title IV-A.

	<u>For year ended</u>	<u>Contract amount (title IV-A and State matching funds)</u>	<u>Type of contract</u>
First contract	June 1971	\$ 1,000,000	fixed price
Second contract	June 1972	<u>a/</u> 3,000,000	fixed price-cost reimbursable
Third contract	June 1973	<u>b/</u> 10,600,000	cost reimbursable
Fourth contract	June 1974	<u>c/</u> 10,000,000	cost reimbursable

a/Amendment 1, made in Sept. 1971, increased the contract from \$1 million to \$3 million and changed the contract from fixed price to cost reimbursable.

b/Amendment 1, made in Oct. 1972, increased the contract from \$2.8 million to \$4.9 million. Amendment 2, made in Feb. 1973, further increased the contract to \$10.6 million. The foundation actually claimed and received from the State \$8.4 million of this.

c/The foundation actually claimed and received from the State \$6.1 million of this amount, including funds paid to the receiver from mid-May through June 1974.

The contracts were deficient because they did not provide for:

- Appropriate regulations and applicable cost principles.
- The billing method and documentation required of the foundation.
- The required periodic, independent financial audits.
- Title to equipment or supplies purchased.
- Financial and program-monitoring duties to be performed by the State and access to records by the State or Federal entities.

--Type and quantity of services contracted for and place where they were to be provided.

In addition, the State did not require budget proposals or detailed cost estimates from the foundation; the contract amounts and their amendments were primarily based on the foundation's projection of funds needed to expand or improve services and on the State's ability to generate matching funds. Also, the State did not comply with 45 C.F.R. 226, which requires establishment of rates of payment not exceeding amounts reasonable and necessary to assure quality services.

The fourth and last State contract with the foundation, entered into in mid-1973, did include certain provisions lacking in previous contracts. It included specific provisions authorizing HEW access to the foundation's records for audit and evaluation and cited how ownership of equipment purchased under the contract would be determined. A budget and detailed description of services to be provided were attached.

SRS could have helped the State (1) contract for services with such entities as the foundation and (2) correct the deficiencies in the State-foundation contracts before mid-1973. Opportunity existed in 1969 when SRS approved the Louisiana State plan for the title IV-A program, in 1970 and later years when it reviewed State-foundation contract proposals, and in 1971 when it recognized a need for written policies and guidelines for title IV-A purchase-of-service contracts.

State plan--The title IV-A program required each participating State to submit to SRS a plan for services to be provided. For services provided under contracts, the State plan was to provide for establishing rates of payment to service contractors not to exceed amounts reasonable and necessary to assure quality services; a description of the method to be used in establishing such rates; and a statement of agreement to maintain, in an accessible form, information to support the rates.

The Louisiana plan did not include the required provisions, but SRS approved it, effective July 1, 1969. Evidence does not show that SRS tried to have the Louisiana State plan revised.

After HEW audited the foundation, HEW's audit agency evaluated five State plans, including Louisiana's, for the title IV-A program. The audit agency reported in

June 1974 that none of the State plans met all required provisions for purchase-of-service contracts.

State-foundation contract--Beginning with the initial State-foundation contract for fiscal year 1971, SRS regional officials reviewed the proposed contracts. Although HEW regional officials noted deficiencies in the contracts and informed the State of them, the contracts were amended without all deficiencies being corrected. HEW regional officials said they were not required to approve the State's purchase-of-service contracts and presumably, therefore, did not follow up on the noted contract deficiencies.

Written policies and guidelines--Title IV-A regulations and guidelines in effect during the period in which the State contracted with the foundation did not provide:

- Guidance on procedures for third party contracting, including documenting contract negotiations and developing budget proposals.
- Explanations of how rates of payment were to be established and cost principles used in determining eligible, reasonable, and necessary costs.
- Guidance on provisions to be included in third party contracts, including requirements for financial accounting and reporting and for periodic audits.

As early as October 1971, HEW recognized the need to review material related to title IV-A purchase of services to establish clearly written policies and guidelines. In November 1971 a task force began to study the purchase-of-service issue. By the end of November 1971, the task force prepared draft regulations for purchasing services and completed a draft handbook on preparing purchase-of-service agreements and donation agreements. Neither the draft purchase-of-service regulation nor the handbook were adopted by HEW, allegedly due to HEW's desire to issue a complete set of title IV-A regulations. The draft handbook contained the basic requirements and sufficient details for preparing adequate purchase-of-service contracts.

Inconsistencies within Federal funding programs

The foundation received funds from 9 Federal agencies with programs under 10 legislative authorities. The addition of each program as a funding source led to diverse and inconsistent administrative requirements and funding

restrictions. Variances existed in fund-use and matching requirements and in accounting and reporting requirements.

Funding procedure--During the approximately 7 years the foundation operated, it received Federal funds through 89 funding actions--18 grants, 3 contracts directly from the Federal agencies, and 68 indirectly through third or fourth party contracts. Each funding action required the foundation to submit an application or program proposal to a Federal agency or an intermediary funding organization. The form of the application or program proposal and the budget data required varied; time periods covered by the funding varied in length and overlapped. Some programs provided cash advances while others operated on a cost-reimbursement basis; payments were made by Federal Reserve letters of credit, Treasury check, or checks from intermediaries.

Funding and matching fund restrictions--Federal legislation and individual agency regulations placed inconsistent restrictions on the foundation's uses of funds and imposed different matching fund requirements. For example, use of title IV-A funds was restricted solely to family-planning services for present and potential welfare recipients. Family-planning services funded under titles V and X had no such restrictions, although both were intended to service low-income persons. Also, title V family-planning funds could not be used for general overhead costs, but title IV-A and title X funds could.

Non-Federal matching fund requirements varied as to percent of funds required and types of noncash items considered to meet matching requirements. Under title V the value of voluntary services or donated space could not be used to meet the matching requirements. However, they were allowed under titles II and X. Under title IV-A, matching requirements had to be satisfied solely through funds donated from non-Federal sources.

Accounting and reporting--Although accounting records and expenditure reporting by funding period were required by each funding program, the requirements generally differed on the detail needed and the type of categories to be used in classifying and reporting grant and contract expenditures.

Accounting was further complicated because certain costs incurred in providing family-planning or other services benefited more than one Federal program. The same clinic doctors and nurses provided family-planning services

to title IV-A, V, and X clients. Such costs should have been distributed to the benefiting funding sources by equitable cost allocation procedures. As noted on page 12, the foundation did not establish such procedures.

These diverse requirements complicated the foundation's fiscal management responsibilities and thereby contributed to the deficiencies which eventually caused the foundation to be put into receivership.

Inadequacies in fiscal monitoring and auditing

The foundation's activities were not adequately monitored because:

- Monitoring responsibilities were not delineated and were fragmented at the Federal level.
- Federal agencies relied on intermediary funding agencies, when they were involved, to monitor the foundation.
- Funding agencies did not have enough staff for monitoring.
- Periodic independent audits of all funding were not required and the HEW audit was not prompt.

If individual Federal and intermediary agencies had adequately monitored and audited the foundation and remedied known and suspected fiscal problems, foundation deficiencies could have been averted or resolved or funding would have been discontinued earlier.

Monitoring responsibilities not delineated

HEW and the Department of State divided grant responsibilities between program and grant/contract staffs. Program staffs selected the grantees/contractors and monitored program performance. Grant/contract staffs executed the agreements and monitored fiscal and budgetary compliance. In theory, according to officials of both organizations, a check-and-balance system was to exist between the two staffs. However, program and grant/contract staffs of both organizations said responsibilities were not delineated and most monitoring was done by the staffs primarily concerned with program performance.

The consequence of this fragmented monitoring is illustrated in the case of funds provided to the foundation by the Department of State through the Agency for International Development (AID). As administering agency, AID was unaware that the foundation had spent about \$954,000 (87 percent) of the funds awarded under a 3-year grant within the first 17 months of the grant period. In fact, AID did not know of the accelerated rate of spending until the foundation requested a \$320,000 grant increase.

Monitoring by the HEW funding agencies was further fragmented, at least initially, by the division of responsibilities between regional and headquarters staffs. During 1969 and 1970, HEW's title V program funding was jointly administered by HEW's regional Maternal and Child Health Service staff and the headquarters-based National Center for Family Planning Services staff. The regional staff was confused about its grant administration responsibilities, including the fiscal monitoring of grantees, as shown by correspondence and discussion with regional officials.

In late 1969 and early 1970, HEW's regional Maternal and Child Health Service staff identified instances of foundation noncompliance with title V grant provisions. These involved the use of unallowable costs to satisfy matching requirements, failure to allocate the costs of providing services to proper funding sources, and expenditures for items not provided for in the approved budget and at rates above the approved budget. A joint review in 1970 by the Maternal and Child Health Service and the National Center for Family Planning Services further showed the foundation's inability to separate and track funds from the multiple sources.

Despite awareness of these problems, HEW, at the insistence of the National Center for Family Planning Services, increased title V funding through additional grant awards. HEW continued to fund the foundation through the title V program and later through the title X program. It did not correct the problems because the National Center for Family Planning Services felt that the foundation was one of the best family-planning projects, as a project, and that its continuity should be insured.

To resolve the unclear division of responsibilities between its regional and headquarters staffs, in late 1970 HEW established a National Center for Family Planning Services regional director to administer its programs regionally. Although this may have eliminated some confusion between headquarters and regional staffs administering

the programs funding the foundation, it did not eliminate problems of dividing monitoring responsibilities between program and grant/contract staffs.

Reliance on intermediaries

HUD's Office of Community Development and HEW's SRS assigned to local and State government grant recipients the responsibility for monitoring the foundation's activities. HUD and SRS regional officials indicated they viewed their responsibilities as generally limited to monitoring overall grantee performance, as opposed to getting directly involved with any subcontractor organizations actually conducting the federally funded projects. HUD monitored its grants to New Orleans in sufficient detail to be aware of its deficiencies. HUD then concentrated on improving the city's ability to manage money--a process which permitted some improper fiscal practices of the foundation to go uncorrected. SRS did not adequately evaluate whether Louisiana carried out its foundation-monitoring responsibilities.

In 1971 HUD regional officials began noting poor accounting and money management which indicated that New Orleans could not control and monitor about 40 Model Cities program projects, one of which was the Neighborhood Health Clinics Program. HUD policy provided for working with the city to overcome the program deficiencies. Continued efforts by regional officials over the next 3 years at the city level resulted in some management improvements at the project (foundation) level. But, those were not enough. The foundation still managed money poorly.

In late 1973, HUD regional staff recommended that funding of the New Orleans Model Cities program be terminated. However, the recommendation was not accepted because HUD central office officials believed such action (1) was contrary to HUD's policy of helping local governments overcome deficiencies and (2) would keep local citizens from benefiting from the program. We generally agree with HUD's policy, however, because the city's problems were not corrected promptly, foundation weaknesses were not corrected promptly.

SRS relied primarily on the State to monitor the foundation as well as other title IV-A contractors, without assuring itself whether the State's efforts were adequate. Before July 1974, SRS limited its monitoring of Louisiana's purchase-of-service contracting to reviewing and commenting on courtesy copies of foundation contracts as requested

by the State and reminding the State of its monitoring responsibilities. (See p. 21 for further discussion of SRS' administration of title IV-A purchase-of-service contracting.)

SRS regional officials said SRS did not do its first onsite monitoring review of Louisiana's title IV-A purchase-of-service contracting activities until July 1974--after the foundation had been placed in receivership.

Lack of staff for monitoring

Several HEW regional officials said they did not have enough staff to closely monitor the use of Federal funds by grant recipients. HEW regional officials responsible for monitoring the title V and title X programs said that, as of August 1974, the regional grants management office had monitoring and administrative responsibility for 735 active grants and 50 contracts. They amounted to about \$165 million and were awarded under various Public Health Service grant programs. Staffing of the grants management office during fiscal year 1974 consisted of 12 professionals and 4 clerks. About 18 professionals and 7 clerks were needed. The workload-staffing problem had only worsened over the last several years. In fiscal year 1971, the grant management staff consisted of 7 professionals and 2 clerks who had financial and administrative responsibility for 200 grants totaling \$68 million.

Grant management officials said they monitored the foundation's title V and title X family-planning grants by reviewing expenditure reports submitted at the end of grant periods. Regional grants management staff did not visit the foundation until 1974 in connection with receivership proceedings and the termination of grants to the foundation.

The regional family-planning program director said that between fiscal years 1971 and 1974 family-planning projects in the region increased from 29 (valued at \$5.2 million) to 112 (valued at \$24.4 million). The regional family-planning program staff during this period ranged from two professionals and one secretary to six professionals and three secretaries. Between November 1970 and January 1973, regional family-planning program staff made about 20 visits to the foundation. These visits were primarily programmatic; financial and administrative matters were of secondary concern. Later visits were made after January 1973, but these involved grand jury hearings and grant closeout proceedings.

The regional SRS Community Services Administration administered title IV-A programs as well as title IV-B programs (child welfare services). An SRS official said one community services program specialist was responsible for title IV-A and title IV-B programs in Louisiana. Among other duties, he was supposed to evaluate and report on the effectiveness of all State social services programs. During fiscal year 1974 total title IV-A expenditures in Louisiana were \$19,078,000 (\$10,644,000 for direct services and \$8,434,000 for contracted services), and title IV-B expenditures were \$1,091,239.

The regional SRS Management Services Office was established to monitor fiscal operations of SRS programs in region VI (Arkansas, Louisiana, Oklahoma, New Mexico, and Texas). During fiscal year 1974, total Federal expenditures in Louisiana alone under the purview of the Management Services Office were about \$176 million. Between January 1973 and November 1974, the region's Management Services staff decreased from about 27 to 17 personnel. The workload, however, did not decrease during that period.

Officials of both SRS regional offices said that the staffing level was not sufficient for adequate program monitoring.

Periodic audits either not required or late

Both regulations and agreements with the foundation gave HEW, HUD, and AID the authority to audit the foundation's programs. The foundation did not have to initiate periodic independent audits of all of its federally funded activities. Such a requirement is important, particularly if such an audit is not initiated by one of the Federal funding agencies.

Not until September 19, 1973, did HEW regulations require States to audit the use of HEW funds--including those provided to subrecipient organizations. These regulations (45 C.F.R. 74) provided uniform administrative requirements to be imposed on State and local government grantees and implemented requirements which the Office of Management and Budget published in Circular A-102. This circular was first issued in October 1971, amended several times, and reissued as Federal Management Circular 74-7 in September 1974. The State did not audit the title IV-A funds it provided to the foundation during the 2-1/2-year period before the beginning of HEW's audit in early 1973. A State official said the State office responsible for title IV-A lacked the staff to

audit title IV-A contract activities. He said the State relied on the numerous audits made of other foundation funds to be assured of the foundation's financial integrity. Beginning in January 1974, the State contracted with an independent public accounting firm to audit foundation billings before payment; later in 1974 the State arranged for the State Legislative Auditor to audit title IV-A transactions with the foundation which occurred after the period covered by HEW auditors.

HEW's title V and title X family-planning regulations did not require grantees to have periodic independent audits made. Recognizing the need for audits, the Director of the National Center for Family Planning Services issued a memorandum in February 1972 to regional HEW program directors. It instructed them to assure that independent audits were made of (1) title V and title X grantees with funding periods ended before January 1, 1972, and (2) currently funded grantees at least 90 days before the funded period ended. The memorandum indicated that later audits would be ordered specifically by HEW regional program offices.

The instructions for the audits, which were revised somewhat in May 1972, were issued to assure that grantees were administering grant funds soundly and effectively. The memorandum said the HEW Audit Agency had been unable to make either routine or special audits within the time desired.

Both the National Center for Family Planning Services headquarters and the SRS regional office requested an HEW audit of the foundation's HEW funds in early 1972. Due to workload problems, the HEW Audit Agency could not initiate an audit until about a year later.

AID did not have any written program or financial administration regulations covering its funds awarded to the foundation. The grant agreement, however, provided that the foundation could have independent audits done, but it did not specify the frequency of such audits. AID officials said they were only aware of two audits of AID funds, both done by AID auditors. The first AID audit was not started until late 1972 when AID became aware that the foundation had spent almost all of its 36-month grant in 17 months. (See p. 26.) The audit found cost allocation weaknesses and noncompliance with cash drawdown requirements, that is, periodic payments stipulated in the grant.

In the spring of 1973 AID began efforts to award a contract to the foundation. At this time it knew that

the foundation was being audited by HEW as a result of charges of fiscal mismanagement and was being investigated by a Federal grand jury. AID's contract staff asked the AID auditors to comment on whether the poor accounting and fiscal management noted earlier had been corrected. An AID audit official advised the staff that a followup audit could not be made before the contract was awarded but, if accounting system corrections planned by the foundation had been made, its fiscal management system would be acceptable.

AID officials said no reasonable basis existed for not awarding a contract to the foundation. AID then proceeded with its efforts and awarded a 3-year, \$2.5 million contract in June 1973. Representatives of AID's contract and audit offices visited the foundation briefly in August 1973 and concluded that the accounting system was adequate for AID funding, except for the lack of an acceptable system for determining overhead costs. After the visit, however, AID changed its letter of credit funding arrangement with the foundation to limit disbursements and establish special reporting arrangements. The second AID audit of the foundation--initiated in November 1973--found accounting system weaknesses.

HUD Model Cities guidance for grantees emphasized the need for the cities to have prompt audits made of organizations operating HUD projects. Such guidance directed the Model Cities, city demonstration agency to discontinue grant funding if an audit report was not on file at the city at least 90 days before the year audited ended. The city demonstration agency had independent audits made after the end of each of the first 2 action years of the foundation-operated health clinics project. But, the audit reports were issued 3 to 4 months after the 90-day time limit. The city demonstration agency did not discontinue the funding when the 90-day limit was reached although required by HUD.

DETRIMENTAL IMPACT OF MULTIPLE SOURCE FUNDING

The diverse requirements of the individual Federal programs complicated the foundation's financial management and affected Federal agencies' abilities to effectively coordinate the Federal programs funding the foundation. As a result, consistent application of Federal goals and policy toward family planning, elimination of duplicative grant and contract management functions, and total rather than piecemeal audit of the foundation never materialized.

Federal coordination and consolidation efforts

In late 1969, the Office of Economic Opportunity regional office recognized the need to consider consolidating its multiple, family-planning grants to the foundation into a single grant. At this time OEO was providing family-planning funding to the foundation through a direct grant and indirect grants which flowed through six different community action agencies located in various parts of the State.

OEO regional officials recognized that OEO's separate grants had complicated the foundation's accounting and administrative procedures and had made it virtually impossible for OEO to adequately monitor or evaluate the effectiveness of the foundation's family-planning activities. An OEO regional program official observed that, in addition to the lack of knowledge of the foundation's total program funds, fragmented OEO grants to the foundation would not allow agencies to adequately determine what OEO's money was buying or to effectively plan the appropriate allocation of resources. Also, because more and more grants were added from multiple sources, the foundation's family-planning program could not be gaged for money savings. OEO considered several funding alternatives but decided in early 1970 to continue funding the foundation through the community action agencies while trying to resolve some of the difficulties previously encountered.

In September 1970, at the direction of an HEW regional official, an Interdepartmental-Interagency Family Planning Group was formed to coordinate family-planning projects funded by various Federal agencies in region VI. The group consisted of representatives from HEW's regional office of Family Planning Services, the Maternal and Child Health Service, SRS, OEO, and HUD. Some of the group's objectives were to:

- Prevent duplication of effort.
- Develop a mechanism for exchanging information on contemplated fundings.
- Review areas in which multiple funding occurs and, where appropriate and necessary, improve local coordination.
- Work for changes in statutes and regulations and in interpreting existing legislation when such changes would improve family-planning services.

The regional interagency family-planning group met five times during 1970 and 1971 and then became inactive. The group's lack of success was partly attributable to (1) the different administrative methods and program requirements created by legislation and regulations for each fund source and (2) the lack of financial and program information on family-planning activities in the region. Under the SRS title IV-A program and the title V formula grant program available to States for family-planning activities, financial and program information was not available to permit effective Federal coordination. According to an HEW official, no readily available means existed to identify organizations receiving Federal funds both directly and indirectly from multiple Federal sources. Other factors contributing to the group's lack of success were (1) an apparent lack of interest above the participant level and (2) heavy workloads which precluded participation.

An HEW regional official involved in administering family-planning program funds said the only practical means to resolve the problems in coordinating and administering family-planning activities would be to consolidate multiple sources of funds into a single source under one Federal agency.

Regarding the Neighborhood Health Clinics Program, initiated with HUD Model Cities funds provided by New Orleans and later supplemented with HEW title XVIII and title XIX funds, no evidence showed any coordination of funding other than the broad review by a Federal Regional Interagency Coordinating Committee of the New Orleans Model Cities program. In late 1973 the city amended its contract for the health clinics program to reflect for the first time reimbursements from title XIX to cover part of the health clinics program costs. HUD and SRS, the agency responsible for Federal administration of title XIX funds, did not coordinate to assure that the foundation was not receiving excessive funding. In fact, SRS regional officials were not even aware that the foundation had obtained over \$1 million in title XIX funds until we told them in late August 1974. The foundation had obtained the title XIX funds through contracts between the State and New Orleans. The State had obtained the funds from SRS on the basis of an approved State plan.

Coordination of audit

Various Federal programs funding foundation activities stipulated that the agencies or their representatives could have access to the foundation's accounting and program

records for audit purposes. Also, Federal Management Circular 73-2 promulgated a Government-wide policy that the Federal agency with the most financial interest in an organization funded by multiple Federal agencies should take the initiative in determining the feasibility of having one agency do an audit for the others. We found, however, that this policy was not followed in regard to the foundation.

As a result:

- Generally only piecemeal assessments were made of the foundation's management of Federal funds from various sources.
- Funds provided by a single grant were audited more than once.
- Several audit organizations simultaneously audited foundation activities.

At least 67 audits of various foundation grants were made by Federal, State, and local government audit organizations and independent public accounting firms since the foundation was established. Sixty-four of the audits dealt with Federal grants and 3 dealt with non-Federal grants.

Most of the audits dealt with a single grant and covered just one grant period. Forty-six of the 58 single-grant audits by independent public accounting firms were of OEO grants.

Only 13 of the 67 audits 1/ resulted in reports which disclosed questions about or deficiencies in the foundation's fiscal management. The more significant deficiencies and questioned costs were disclosed in the six audit reports issued beginning in 1973--after allegations of the foundation's mismanagement of Federal funds had surfaced. Of these six, the two most important dealt with multiple grants--one was the report issued by the HEW Audit Agency and the other was the second of two multiple-grant audit reports issued by an independent public accounting firm.

1/At the time our fieldwork was completed, the State Legislative Auditor's report on his audit of title IV-A funds provided to the foundation had not been issued.

Should more of the 67 foundation audits have identified deficiencies during the periods audited? The HEW audit was the only one we reviewed for adequacy, so we cannot answer that question. Of 31 audit reports by independent public accounting firms involving mainly single OEO grants, the audit objectives were to develop the basis for opinions on the financial statements.

CHAPTER 4

CORRECTIVE EFFORTS, CONCLUSIONS, AGENCY COMMENTS AND OUR EVALUATIONS, AND RECOMMENDATIONS

The ways the foundation circumvented fund limitations and improperly obtained Federal funds from several Federal assistance programs highlight long-recognized problems in administering Federal assistance program funds.

Since the mid-1960s, the legislative and executive branches have made numerous attempts to improve the administration of Federal grant programs. 1/ Government-wide actions, as well as individual agency actions, have been taken. However, our review of the administration of programs funding the foundation and of the corrective efforts indicates a need to:

- Improve administrative requirements of Federal grant programs.
- Reduce the number of Federal programs serving similar objectives.

ADMINISTRATIVE REQUIREMENTS

The foundation did not have an acceptable system of accounting and of internal controls for Federal funds. Furthermore, none of the Federal or intermediary funding agencies (1) made an effective preaward assessment of the foundation's ability to manage money, (2) adequately monitored and audited its fiscal practices, or (3) required it to establish a system to adequately account for and control Federal funds by funding source. Similar shortcomings in the administration of Federal grant programs have been apparent for many years, and administrative problems common to various Federal grant programs have been addressed both Government-wide and by individual agencies or departments.

Government-wide efforts

The first legislative, Government-wide effort to improve the way Federal grant programs are administered was the

1/See our report to the Congress, "Fundamental Changes are Needed in Federal Assistance to State and Local Governments" (GGD-75-75, Aug. 19, 1975).

Intergovernmental Cooperation Act of 1968. Other legislative efforts include the Joint Funding Simplification Act of 1974. The legislative efforts have sought to improve Federal grant administration among governments through use of more simple and uniform administrative rules and procedures for grantees.

The Office of Management and Budget and later the General Services Administration's Office of Federal Management Policy issued Government-wide policies and directives or conducted demonstration programs to develop procedures to implement the legislative goals.

As cited in our report, "Fundamental Changes are Needed in Federal Assistance to State and Local Governments," problems still exist in providing grant assistance. Some of the problems surfaced as contributors to the foundation's downfall. They still have not been adequately dealt with.

For example, in February 1975 the General Services Administration issued, for public review and comment, proposed standard administrative requirements for Federal grants, contracts, and other agreements with public and private institutions of higher education, public and private hospitals, and public and private nonprofit organizations. The purpose of the proposed regulations is to

- provide a set of requirements to replace the many varying and often conflicting requirements placed on recipients of Federal funds,
- provide standards for money management systems for recipients of Federal funds, and
- require that the recipients' use of Federal funds be subject to periodic, independent audit. The proposed regulations do not require that (1) Federal agencies determine before the award of Federal funds that a recipient has a system to manage money which complies with established standards and (2) the periodic independent audits cover all federally funded programs when more than one Federal funding source is involved.

As discussed in chapter 3, the lack of (1) a preaward determination that the foundation's financial management system was adequate and (2) an early comprehensive audit allowed major management weaknesses to remain uncorrected.

To make the administration of the various Federal grant programs uniform and to avoid potential mismanagement of

Federal funds by grant recipients, the Government-wide regulations should provide that (1) grantee compliance with established financial management standards be determined by Federal agencies before funds are awarded and (2) when a grantee receives financial assistance from more than one Federal source, the required periodic independent audit cover all Federal funds.

When a grantee acts as an intermediary and the Federal funding essentially "passes through" grantee to a subgrantee or contractor to carry out the Federal grant, the subgrantee or contractor should be required by regulation to comply with the established financial management standards before any funds are awarded. Periodic independent audits of the subgrantee or contractor should cover all Federal funds. If the grantee or its subgrantee or contractor initiates the audit, it should be required to direct the auditor to furnish to the Federal funding agency or agencies a copy of the audit report and related correspondence such as the "management letter" discussed on page 16. When a Federal funding agency periodically audits a grantee (or its subgrantee or contractor), the audit should include all Federal funds received. This will better assure compliance with the intent of Federal Management Circular 73-2.

Individual agency efforts

Individual agencies and departments have tried to improve their grant administration policies and procedures. In some cases, changes were made to comply with Office of Management and Budget or General Services Administration directives; in others, changes were initiated as a result of adverse findings published by interagency or intraagency groups reviewing agency or department grant and contract administration policies and procedures. According to Department of Health, Education, and Welfare and Department of State officials, some changes were made specifically to correct administrative weaknesses that surfaced as a result of the foundation case. We did not learn of any similar action by the Department of Housing and Urban Development; however, it was replacing its Model Cities Program with the Community Development Block Grant Program ¹/. We did not review HUD's policies and plans for administering this program.

¹/Title I of the Housing and Community Development Act of 1974 (42 U.S.C. 5301) consolidated several HUD programs, including the Model Cities Program, into a single block grant program.

HEW made several changes in its fiscal regulations and procedures for various programs to increase fiscal accountability of the grantees and contractors.

- In April 1974 a directive was issued requiring the HEW Audit Agency to quickly assess "high risk" grantees' and contractors' abilities to account for and to manage Federal funds. In the high risk category are organizations that have not previously received HEW awards.
- In July 1974, the Public Health Service issued a compilation of major features of HEW and Public Health Service regulations and policies concerning grant administration.
- The Public Health Service and the Social and Rehabilitation Service have assured increased monitoring of grantees. Public Health Service grant officers now are part of the grant award approval and grant-monitoring teams. SRS has increased its regional staff for monitoring title IV-A (now title XX) grants and at some locations has placed monitors in State agency facilities administering the title IV-A program. According to SRS officials, increased SRS monitoring has resulted in deferred payments of approximately \$20 million to States submitting requests for reimbursement of questionable expenses.
- To implement Office of Management and Budget Circular No. A-102, "Uniform Administration Requirements for Grants-in-Aid to State and Local Governments," HEW published regulations containing general requirements for administering grants to State and local governments. The regulations include standards for grantee and subgrantee financial management systems, financial reporting requirements, and cost principles. Although the circular and HEW's implementing regulations were designed for grants to states and local governments, many of the provisions are equally appropriate for grants to nongovernmental grantees. The previously mentioned February 1975 proposed Government-wide requirements will specifically make many of the provisions applicable to the nongovernmental grantees.

The Agency for International Development published policies for grant administration and, in October 1974, issued a grants management handbook to implement them. Although the handbook requires a preaward audit of a potential grantee's accounting system, this requirement can be waived

if the potential grantee has previously received Department of State funding or if it is currently receiving funds from another Federal agency. Fiscal management procedures set out in the handbook include (1) review of fiscal program reports, which are to be submitted at least annually, (2) an annual audit, and (3) re-review of fiscal deficiencies identified during the preaward assessment.

FUNDING SOURCES FOR FEDERAL PROGRAMS
SERVING SIMILAR OBJECTIVES

The foundation's Family Planning Program grew over a 2-year period from serving one county to serving the entire State. The annual funding of the program increased from \$0.8 million for 1967 to \$12.0 million for 1973.

Federal funds for the Family Planning Program were provided under four separate legislative authorities (see p. 2), and administrative responsibility was split at various times among Federal, State, and local agencies. Within HEW, three organizations provided funds and had related management responsibilities.

The funding agencies' monitoring of the foundation was totally ineffective, and the attempt made by HEW's region VI to coordinate Federal management activities failed. Effective administration of the Family Planning Program was made almost impossible by (1) the complex funding arrangements allowed by Federal legislation, (2) the foundation's ability to obtain and manipulate Federal funds, and (3) the inadequacies in Federal regulations and management procedures.

Solutions to the problems demonstrated by this case study cannot be easily formulated within the structure of the present Federal grant-in-aid system, which provides financial assistance for numerous programs serving similar objectives. When many organizations become involved in funding activities to be carried out by one entity, the usual result is inefficient use of funds because no one organization comprehensively plans, monitors, or controls the activities.

One of the most recent legislative attempts to improve the administration of the Federal grant-in-aid system was the Joint Funding Simplification Act of 1974. This act permits the use of more simple and uniform administrative rules and procedures when a State or local government or a private non-profit organization wishes to develop a project for which assistance is needed from two or more programs administered by one or more Federal agencies.

Joint funding is essentially a management tool to facilitate the use of Federal assistance in multipurpose projects that transcend program boundaries. However, the House Committee on Government Operations stated that, although this legislation is useful and desirable, it is a limited help in dealing with the fundamental problems of the present complex Federal grant-in-aid system. The Committee noted that legislatively consolidating closely related categorical programs into broader-purpose grants and placing similar programs under a single Federal agency would more likely improve grant-in-aid administration.

Consolidating fragmented programs is fundamental to improving the administration of Federal assistance programs at all levels of Government. The number of family-planning programs could be reduced without greatly reducing the level of services available. For example, the four HEW programs (titles IV-A, V, and XIX of the Social Security Act and title X of the Public Health Service Act) are directed toward low-income people. Three of the four programs are grant programs and can be used to provide free services when services are not otherwise available. The other program (title XIX--Medicaid) is a cost-reimbursement program for providers (public and private) of services to eligible recipients. Three of the four programs are essentially State programs; the other (title X), a direct project grant program administered by HEW.

While consolidating family-planning programs warrants congressional consideration, the required legislative action could take a long time. Each program has been authorized to meet a different objective--titles IV-A and XIX of the Social Security Act are administratively part of social welfare programs while the other two are administered as health programs--and legislative responsibility rests with four congressional committees: two in the Senate and two in the House of Representatives.

An interim method for improving family-planning programs is provided by the Joint Funding Simplification Act of 1974. Title X, the only program directly administered by HEW, could be used to identify situations which could lend themselves to joint funding using title X, title IV-A, title V, and title XIX funds. Joint funding would provide:

- One Federal contact point. A grantee would not have to deal separately with representatives of different Federal agencies.
- A consolidated grant application instead of a separate application for each Federal program.

- A single grant award notice with synchronized funding periods rather than a number of grant awards, each with its own funding period.
- One channel for delivering Federal assistance funds rather than several different advance payment or reimbursement systems.
- A single financial reporting system instead of multiple reports for different financial periods.
- Coordinated program-monitoring requirements rather than separate requirements for each Federal assistance program providing funds.
- One project completion report rather than individual reports for each Federal assistance program contributing to the project.
- A single audit instead of separate audits for each Federal assistance program.

Actions similar to the above would have helped to prevent or correct many of the problems discussed in chapter 3.

RECOMMENDATIONS TO THE DIRECTOR,
OFFICE OF MANAGEMENT AND BUDGET

We recommend that the Director revise the proposed uniform administrative requirements for Federal grants, contracts, and other agreements with public and private institutions of higher education; public and private hospitals; and private, nonprofit organizations. Federal agencies should be required to assure that:

- Potential Federal fund recipients are aware of fiscal accountability requirements.
- The recipients' accounting systems and internal controls are adequate to comply with established standards.
- Periodic audits encompass all Federal funding.
- Copies of audit reports and related correspondence be furnished by the audit organization to each funding source.

When a grantee acts as an intermediary and the Federal funding essentially "passes through" the grantee to a subgrantee or contractor, such requirements should be placed on the subgrantee or contractor.

RECOMMENDATIONS TO THE SECRETARY, HEW

We recommend the Secretary seek out State and local family-planning programs which might be appropriate for joint funding as provided for by the Joint Funding Simplification Act of 1974. The Secretary should continue efforts to assure that grantee and contractor fiscal accountability is of the same concern as program effectiveness.

MATTER FOR CONSIDERATION OF THE CONGRESS

To reduce the complexity of providing Federal financial assistance for family-planning services and to improve program administration, the Congress should consider reducing the number of domestic programs providing funds for family-planning services to two programs--the Medicaid program and a direct service program for people who do not, because of financial or other factors, have access to family-planning services.

AGENCY COMMENTS AND OUR EVALUATIONS

Office of Management and Budget

The Office of Management and Budget agreed with our recommendation that the proposed uniform administrative requirements be revised. The Office feels that the recommendation applies equally to other types of grant recipients and said it will consider promulgating such requirements for the entire grant area.

The Office of Management and Budget concluded that among the proposed uniform requirements is not necessary to provide that periodic audits encompass all Federal funding and that recipients furnish all Federal funding agencies with copies of audit reports and related correspondence. The Office stated, as the basis for its conclusion, that considerable progress has been made in making single agencies aware of the necessity to audit all grants to educational institutions and to negotiate and audit overhead costs for all State and many local governments. This is being done to make them comply with existing Government-wide policy that the Federal agency with the predominant financial interest take the initiative to determine the feasibility of having one agency do the auditing for the others. The Office believes a continuing effort is needed to determine, in a practical way, the single agency best equipped to audit a given situation or a given area.

We commend the efforts to encourage compliance with the existing policy, but the recommended action is needed

provide greater assurance that the proposed requirement for periodic audits also provide that such audits include all Federal funds.

Department of Health, Education, and Welfare

Since HEW did not attempt to consolidate several of its funding programs which acted as sources of revenue to the foundation, we cannot demonstrate the feasibility of the consolidation.

We agree that improving the administration of programs through joint funding will be difficult for a Federal agency. Individual program administration and funding of a project can be easier for the Federal agency. However, this can cause problems when an entity receives and must account for funds from multiple Federal sources.

In the interest of simplifying Federal funding to ease the burdens on the provider and recipient of funds, the Joint Funding Simplification Act of 1974 was enacted. It is in the spirit of this act that we continue to recommend that the Secretary of HEW seek opportunities to provide for the intent of this act.

Department of State,
Agency for International Development

AID did not comment on the recommendations in our report. It stated that the Federal Procurement Regulations (subpart 1-1.12) set forth minimum standards for responsible prospective contractors and a procedure for conducting pre-award surveys.

These Government-wide regulations, however, concern contractors only. They require assurances of performance capability rather than determinations that contractors' and grantees' accounting systems and internal controls are adequate to reasonably insure that Federal funds are properly used and accounted for, particularly where multifunding sources are involved.

Department of Housing and Urban Development

HUD agrees with our recommendation to the Office of Management and Budget to revise the proposed uniform administrative requirements for Federal grants, contracts, and other agreements with public and private organizations. It acknowledged that different administrative methods and program requirements created difficulties for Federal administration and for recipients of Federal funds. HUD believes

enacting the Housing and Community Development Act of 1974, which consolidated seven programs into one, will alleviate some of the difficulties.

HUD stated also that it has to monitor about 2,500 grantees, who receive funding under its block grant program. It believes that it must continue to rely on the grantees to adequately monitor any subgrantees or parties who contract with grantees. HUD stated that with so many grantees it can only spot check the subgrantees or contractors to determine if a grantee is carrying out its monitoring responsibilities.

Louisiana

We submitted a copy of our draft report to the State for comment. In April 1976 a State official advised us that the State chose not to comment on the report because it had not settled with HEW the audit findings discussed in chapter 2.

LEGISLATIVE AUTHORIZATIONS FOR
FEDERAL FUNDS OBTAINED BY THE FOUNDATION

SOCIAL SECURITY ACT

Title IV-A

The Social Security Amendments of 1967 (42 U.S.C. 601) authorized Federal funds for family-planning services to be provided to eligible persons under part A of title IV, known as the Aid to Families with Dependent Children program. The program provides direct financial assistance and various social services, including family planning, to help needy families move from dependency to economic self-sufficiency. Other program goals were to prevent or reduce illegitimate births, to strengthen family life, and to protect children. The 1967 amendments included a requirement for States to offer family-planning services to present welfare recipients and, at the State's option, to recent, former, or potential welfare recipients. These amendments also authorized the States to purchase family-planning and other social services from public or private providers.

The Social Security Amendments of 1972 (42 U.S.C. 603(e) and (f)) included new incentives for States to provide family-planning services. The Federal matching rate for these services was increased from 75 to 90 percent. In addition, any State failing to offer and provide family-planning services to current Aid to Families with Dependent Children recipients desiring them was subject to a 1-percent penalty reduction in its title IV-A funds for the year.

The Social and Rehabilitation Service administered title IV-A funds at the Federal level. State welfare agencies usually administered these funds at the State level and provided the family-planning services through State or local government units or by contracting with public or private organizations or physicians. During fiscal years 1971 through 1974 about \$4.3 billion in title IV-A funds was spent for social services nationally, including an estimated \$149.9 million for family-planning services. Of these amounts, Louisiana received \$67.5 million in title IV-A funds for all social services and the foundation received \$14.5 million for its Family Planning Program.

Under the Social Security Amendments of 1974 (Public Law 93-647), the service aspects of title IV-A, including family-planning services, were placed under a new title XX of the Social Security Act.

Title V

The Social Security Amendments of 1965 (42 U.S.C. 712) authorized title V grants or contracts with public or non-profit, private organizations, including institutions of higher learning, for research and programs which promised to greatly contribute to the advancement of maternal, child health, or crippled children's services. The 1967 and 1972 amendments to the Social Security Act authorized funds to continue such research efforts.

The Social Security Amendments of 1967 also authorized title V formula and project grant funds for services to reduce infant mortality and to otherwise promote the health of mothers and children, particularly in rural areas and in areas having a concentration of low-income families. States could obtain both formula and project grants. The project grant funds obtained by the foundation were provided to public and nonprofit, private organizations for maternity and infant care to help reduce the incidence of mental retardation and other handicapping conditions caused by childbearing complications and to help reduce infant and maternal mortality. Projects for providing family-planning services were specifically included. The project grants were provided to pay up to 75 percent of total project costs, excluding general overhead.

Project funding under title V was scheduled to lapse on June 30, 1973, but a 1-year extension was authorized. Funded projects were to be merged into the States' formula grant programs after June 30, 1974.

SRS initially had responsibility for administering title V funds. In late 1969 this responsibility was transferred to the Public Health Service of the Department of Health, Education, and Welfare. As of July 1973, the Health Services Administration of the Public Health Service was administering the title V funds. During fiscal years 1968 through 1974 an estimated \$184 million of title V funds were authorized nationally for family-planning related activities. The foundation received \$11 million of this money directly and nearly \$1 million indirectly.

Title XVIII

The Social Security Amendments of 1965 (42 U.S.C. 1395 et seq.), as amended, authorized a program under title XVIII (Medicare) to provide insurance protection against certain costs of health care to persons 65 or older and to certain disabled persons who elect this coverage. Under part B of title XVIII, insurance benefits are paid to physicians,

hospitals, and other providers of health care to cover the reasonable cost of necessary medical services furnished to eligible persons.

The Medicare program is administered by HEW's Social Security Administration. During fiscal years 1973 and 1974 benefit payments totaled about \$20.3 billion nationally, of which the foundation got about \$4,200.

Title XIX

The Social Security Amendments of 1965 (42 U.S.C. 1396 et seq.) as amended, authorized an assistance program under title XIX (Medicaid) to share with States the cost of providing medical assistance to persons--regardless of age--whose incomes and resources were insufficient to pay for health care. Depending on the per capita income in each State, the Government paid from 50 to 78 percent of the costs of States' programs. Health care under this program included various inpatient and outpatient diagnostic and treatment services, including family-planning services.

The Medicaid program is administered by SRS. During 1973 and 1974 benefit payments totaled about \$10.3 billion nationally; the foundation received about \$836,000.

PUBLIC HEALTH SERVICE ACT

Title III

Title III of the Public Health Service Act (42 U.S.C. 241(h)), as amended, authorized contracts to promote research, investigations, experiments, demonstrations, and studies relating to the causes, diagnosis, treatment, control, and prevention of physical and mental diseases and impairments. Title III contract funds received by the foundation for a dental research project were administered by the National Institutes of Health within HEW's Public Health Service. During fiscal years 1972 through 1974, the National Institutes of Health awarded contracts under title III amounting to \$12.4 million; the foundation obtained about \$6,800.

Title X

Federal involvement in family-planning services received increased emphasis when the Congress passed the Family Planning Services and Population Research Act of 1970 (42 U.S.C. 3505(a) and (c)). The act established, under title X of the Public Health Service Act, and Office of Population Affairs

under the Secretary of HEW to serve as the primary focus within the Government for family-planning services. It also required the Secretary to develop and to report annually to the Congress the results of a 5-year plan for expanding family-planning services.

Under this act, grants and contracts with public non-profit, private organizations are authorized to provide comprehensive, voluntary family-planning services to all persons desiring them. This act also authorizes grants and contracts for training personnel carrying out family-planning service programs and for conducting research involving population and family planning.

Although title X has no patient eligibility restrictions, the law requires that priority be given to providing services to low-income persons. Organizations operating these projects must seek payment from third-party reimbursement sources, such as title XIX and title IV-A of the Social Security Act and private insurance. The Federal share of title X project costs may vary but must be less than the total cost. The non-Federal share may be derived from (1) State or local funds, (2) identifiable in-kind expenses, (3) income from private sources, including health insurance, and (4) contributions.

The Health Services Administration, within the Public Health Service of HEW, administers title X funds. During fiscal years 1972 through 1974, about \$283.6 million in title X funds were authorized nationally, of which the foundation obtained about \$7.7 million.

ECONOMIC OPPORTUNITY ACT

Title II

The Economic Opportunity Amendments of 1967 (42 U.S.C. 2809) highlighted family-planning programs under the title II community action program. The programs were to provide voluntary family-planning assistance and services to low-income persons. The services were to include information, medical assistance, and supplies.

The Office of Economic Opportunity initially administered the title II funds. In April 1971, however, OEO and HEW entered into an agreement to transfer certain community action agency family-planning projects to HEW. By January 1972, those projects run by the foundation were being funded by HEW under title X of the Public Health Service Act.

The total title II funds expended nationally for family-planning services during fiscal years 1967 through 1973 was

not available. The foundation, during this period, obtained \$8.1 million of such funds.

DEMONSTRATION CITIES AND METROPOLITAN
DEVELOPMENT ACT

Title I

Title I of the Demonstration Cities and Metropolitan Development Act of 1966 (42 U.S.C. 3301) established the Model Cities Program. The basic purpose was to provide financial and technical assistance to cities for planning, developing, and carrying out locally prepared, comprehensive city demonstration programs. Such comprehensive programs were to significantly affect physical and social problems and to remove or arrest blight and decay in entire sections or neighborhoods; to contribute to the sound development of the entire city; to make marked progress in reducing social and educational disadvantages, ill health, and underemployment; and to provide educational, health, and social services necessary to serve the area poor and disadvantaged.

Under the Model Cities Program, the Department of Housing and Urban Development provided grants to city demonstration agencies to help implement the projects included in the approved programs. A city demonstration agency could be an administrative unit of the city or a separate local public agency responsible to the city. The city demonstration agencies were permitted to contract with public and private agencies to carry out the projects.

To implement its comprehensive city demonstration program, which included over 40 projects, New Orleans received Model Cities grants totaling \$28.8 million from September 1970 through February 1975. Of this, the foundation got \$6.6 million.

Fiscal year 1974 was the last year in which funds were appropriated for the Model Cities Program. This program, along with several other HUD programs (such as Urban Renewal, Rehabilitation Loans, and Open Space Land) have been consolidated under HUD's Community Development Block Grant Program, authorized by title I of the Housing and Community Development Act of 1974 (42 U.S.C. 5301).

FOREIGN ASSISTANCE ACT

Title X

22 U.S.C. 2219 was enacted in November 1967 and authorized the President, under title X of the Foreign Assistance

Act, to provide grants, contracts, and loans for programs relating to population growth in friendly foreign countries. Nonprofit organizations both in the United States and in foreign countries are included in the list of eligible recipient organizations. The programs relating to population growth include, but are not limited to, demographic studies, research, training, construction and staffing of clinics, manufacture of medical supplies, dissemination of information, and provision of medical assistance and supplies.

The Agency for International Development within the Department of State is responsible for administering title X funds. During fiscal years 1971 through 1973, \$344.7 million in title X funds were obligated for population growth-related projects. Of this, the foundation obtained \$1.5 million.



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

MAR 19 1976

Mr. Elmer B. Staats
Comptroller General of the United States
General Accounting Office
Washington, D.C. 20548

Dear Mr. Staats:

Thank you for the opportunity to review and comment on your draft report on "Administration of Federal Assistance Programs--A Case Study Demonstrating Need for Additional Improvements."

The case study serves as another example of the complexities and problems which can be created by numerous categorical grant programs for closely related purposes. As you know, this is a major concern of the Administration. The President is proposing that 59 grant programs be replaced with broad block grants in four important areas. Adoption of this proposal would combine many of the categorical grant programs dealt with in your case study.

The draft report makes recommendations to the Administrator of General Services. Followup correspondence asked for our comments on the recommendations in view of the recent transfer of functions from the General Services Administration to the Office of Management and Budget. The first recommendation is that the proposed uniform administrative requirements for educational institutions, hospitals, and private nonprofit organizations be revised to require Federal agencies to assure that (1) potential grantees are aware of fiscal accountability requirements, and (2) the grantees' accounting systems and internal controls are adequate to comply with established standards.

We concur in these objectives. However, we believe the recommendation applies equally well to the entire spectrum of Federal assistance programs, not just to the organizations

mentioned above. For this reason, we think it would be appropriate to consider the promulgation of such requirements for the entire grant area. This will be considered.

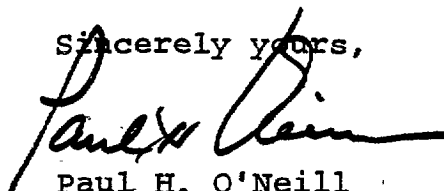
The second recommendation is that the proposed uniform administrative requirements be revised to require that periodic audits encompass all Federal funding, and that recipients furnish all Federal funding agencies with copies of audit reports, including related correspondence. Again, we concur in the objective but do not believe it necessary to include the requirement in the uniform administrative requirements.

As the report points out, Federal Management Circular 73-2 already promulgates a Government-wide policy that a Federal agency with the predominant financial interest in an organization funded by multiple Federal agencies should take the initiative to determine the feasibility of one agency auditing for the others. Towards this end, we have been working on a continuing basis with the major grantmaking agencies. For example, single agency cognizance has been worked out for the audit of all grants to over 2,100 educational institutions as well as for the negotiation of their overhead rates. Single agency cognizance has been established for the negotiation and audit of overhead costs in all States, State agencies, and the 1,000 largest cities, counties, and towns.

Since the policy of single agency audit cognizance has already been established, we do not believe it is necessary to include the requirement in the uniform administrative requirements. What is needed is the continuation of agency efforts to determine, in a practical way, the single agency that is best equipped to perform an audit in a given situation or in a given geographical area. Towards this objective we will continue to work with the agencies.

We appreciate the opportunity to review the report and hope our comments will be helpful.

Sincerely yours,



Paul H. O'Neill
Deputy Director



DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20201

MAR 24 1976

Mr. Gregory J. Ahart
Director, Manpower and
Welfare Division
United States General
Accounting Office
Washington, D.C. 20548

Dear Mr. Ahart:

The Secretary asked that I respond to your request for our comments on your draft report entitled, "Administration of Federal Assistance Programs -- A Case Study Demonstrating Need for Additional Improvements." The enclosed comments represent the tentative position of the Department and are subject to reevaluation when the final version of this report is received.

We appreciate the opportunity to comment on this draft report before its publication.

Sincerely yours,

A handwritten signature in cursive script that reads "John D. Young".

John D. Young
Assistant Secretary, Comptroller

Enclosure

Comments on the Department of Health, Education, and Welfare on the Comptroller General's Report to the Congress entitled, "Administration of Federal Assistance Programs -- A Case Study Demonstrating Need for Additional Improvements"

GAO RECOMMENDATION

We recommend that the Secretary seek out State and local family planning programs which would be appropriate for joint funding and consider whether the administration of such programs could be improved by joint funding arrangements as provided for by the Joint Funding Simplification Act of 1974. In addition, the Secretary should continue efforts to assure that grantee and contractor fiscal accountability is of equal concern as program effectiveness.

DEPARTMENT COMMENT

We agree that many benefits could be derived by joint funding family planning projects as suggested by GAO, but unfortunately it is not practical.

One of the most difficult undertakings to bring about successfully in HEW has been the joint funding of a single project out of a variety of legislative and funding authorities. We have very few examples of success. Perhaps the best is our five-year project with the University of Chicago School of Social Work to joint fund all training monies from HEW going to that School. Generally, the evaluation of this effort has been favorable, but it has been a difficult undertaking, and one fact emerges clearly: it could not have been accomplished unless the sources of HEW funds had all been determined at the Federal level from discretionary funds.

This recommendation calls for joint funding at least one project grant program (Title X of the Public Health Service Act) and three formula grant programs (Title V, XIX, and XX of the Social Security Act -- maternal and child health, social services, and Medicaid). Major funding, therefore, would flow through the States before it could be pulled together at the recipient level. While it may make sense in many instances to consolidate funds, applications, and so on going to a single recipient, it is most difficult to visualize how HEW could accomplish this with formula grant money.

There are several difficulties with joint funding or applying joint funding concepts to projects like this:

1. The GAO report suggests that HEW identify potential joint funding applications.

In the first place, the joint funding regulations provide for the potential grantee to make this determination, not the Federal government. There are practical reasons for this.

HEW does not maintain comprehensive records of State awarded projects funded out of formula grants. Nor does the individual agency generally know what projects another Federal agency may be awarding.

2. The majority of the funding in question for this project and for most HEW service programs is State administered.

HEW has no direct involvement, therefore, with the project awards. As a consequence, joint funding with the Federal government as lead agency would probably not be acceptable to the State. Furthermore, HEW is not geared up administratively to assume a large project monitoring responsibility which joint funding would entail.

States could, of course, take the initiative and develop joint funding projects with Federal project grant participation. We could not require the States to do this though.

3. Joint funding of projects has been administratively more difficult than individual projects. In HEW's experience, joint funding has been difficult to package because of uncertainties about future funding, and varying legal and regulatory requirements for advisory council review.

In our view, joint funding can be appropriately used, but in a relatively limited universe and not in such a complex statutory and organizational situation as recommended in the GAO draft report. In fact, the report itself recommends what may be the right direction, namely limiting the number of programs which provide funding for the same service (GAO's recommendation to Congress).

The Department will, of course, continue its efforts to assure that grantee and contractor fiscal accountability continues to rank equally with program effectiveness in importance.



DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D.C. 20410

FEB 24 1976

OFFICE OF THE ASSISTANT SECRETARY
FOR COMMUNITY PLANNING AND DEVELOPMENT

IN REPLY REFER TO:
CCF

Mr. Henry Eschwege
Director
Resources and Economic Development Div.
United States General Accounting Office
Washington, D. C. 20548

Dear Mr. Eschwege:

Secretary Hills has asked me to respond to your letter of January 26, 1976, in which you requested formal comments on your draft report to Congress on the administration of Federal assistance programs. Both of the HUD programs mentioned in your report, Model Cities and Community Development Block Grants are in my area of responsibility. My comments will address two of your general recommendations, including the broad issue of multi-agency funding.

First, I want to acknowledge that the difficulties described in the draft report in managing multi-funded programs and similar, but different, programs aimed at the same general objectives have also been experienced in HUD. This experience contributed to the Administration's proposal to combine seven of the HUD categorical programs which were aimed at the general objective of aiding community development. The different administrative methods and program requirements which had been created by the various categorical laws were a burden both to the Federal administrators and the clients who were receiving the Federal aid.

The recommendation to apply uniform administrative requirements for Federal grants, contracts and other agreements with public and private institutions of higher education, public and private hospitals and private nonprofit organizations is, of course, analagous to the uniform standards that Federal Management Circular 74-7 prescribes for grant programs aimed at State and local governments. Although these standards had been promulgated in 1971, we found that they could not be applied to the seven categorical grant programs that dealt with community development activities because of the disparate legislative provisions or the complex administrative regulations which had developed over the years and become such a fundamental part of the program. It was only with the passage of the Housing and Community Development Act of 1974, which consolidated the seven categorical programs into a single Community Development Block Grant program, that we were able to apply the uniform administrative standards.

Consequently, while I agree to the desirability of your proposal, it may only be possible if your other proposal, namely combining similar programs, is also carried out. Certainly the need for adequate accounting systems and internal controls is much greater for private and nonprofit organizations than it is for governmental organizations which are already subject to public accountability and we feel, generally, that the standards for governments prescribed in FMC 74-7 are the absolute minimum requirements for any organization dealing with public funds.

Another practical problem, however, may be encountered if there is an absolute requirement for the Federal agency to determine by inspection grantee compliance with established financial management standards. For example, the Community Development program was enacted August 22, 1974 and applications for grants were to be received December 1, 1974. Since January 1, 1975, over 2,500 letters of credit have been established for grantees in this new program. Obviously, a physical inspection of applicants' accounting systems would have been impossible. The solution was to require certification by the applicants that their systems met published requirements. It should be noted that most of the grantees had done business with HUD before and a strong monitoring system employed by the forty HUD field offices is directed towards identifying deficiencies in grantees' management, both financial and programmatic, and helping them to come up to standard if deficiencies are found.

The problem of more than one Federal agency providing funds for the same kind of service (in your example, family planning service) will be somewhat reduced in the Community Development Block Grant program because the regulations require that block grant funds may only be used for public services in support of other specific community development eligible activities, when the services are not otherwise available from agencies normally providing those services and, then, only with the specific approval of HUD. The exception to this is those Model Cities which have not yet completed their fifth action year. This, however, will not solve the problem of different legislative programs for similar activities.

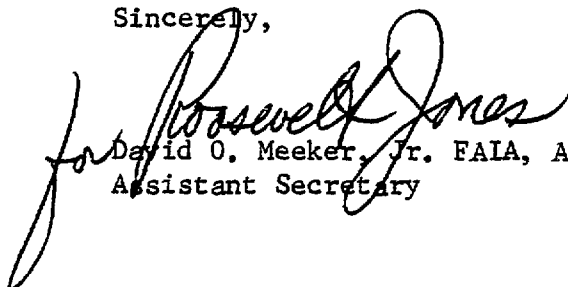
The problem of relying on intermediaries to monitor third party contractors is one which, I am afraid, will remain. We require third parties to operate under the same standards that apply to our grantees, and we require the grantees to monitor their contractors' performance. However, with 2,500 grantees to monitor, it is only by an occasional spot check of a third party contractor that we can determine if a grantee is carrying out their responsibilities for monitoring the third parties.

As you can see, your recommendations, while directed towards private and nonprofit organizations, are already operating in the Community Development program dealing with State and local governments. While it is still too early to see the results of the independent audits, HUD audits and the emphasis we

have placed on monitoring by our program staffs, I am confident that the path we are following for community development, and the one you recommend for non-governmental grants and contracts, is the right one.

Thank you for giving us the opportunity to comment on your draft report. If I or my staff can provide further assistance, please let me know.

Sincerely,

A handwritten signature in cursive script, appearing to read "for Roosevelt Jones".

David O. Meeker, Jr. FAIA, AIP
Assistant Secretary

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

Auditor General

Mr. J. K. Fasick
Director
International Division
U.S. General Accounting Office
441 G Street, N.W.
Washington, D.C. 20548

MAR 1 1976

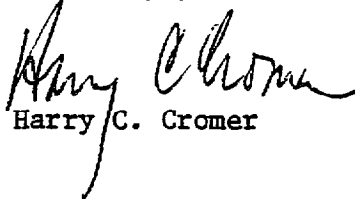
Dear Mr. Fasick:

Thank you for your letter of January 26, 1976 requesting AID comments on the General Accounting Office draft report "Administration of Federal Assistance Programs--A Case Study Demonstrating Need for Additional Improvements."

Responsible officials in the Agency have reviewed the draft report and the Assistant Administrator for Program and Management Services has provided comments. His memorandum is attached herewith as the AID comments on this draft report.

Please let me know if I can be of any further assistance in this regard.

Sincerely yours,


Harry C. Cromer

Attachment: a/s

UNITED STATES GOVERNMENT

Memorandum

TO : AG, Mr. Harry C. Cromer

DATE: FEB 27 1976

FROM : AA/SER, Charles A. Mann

SUBJECT: Draft Report, "Administration of Federal Assistance Programs--A Case Study Demonstrating Need for Additional Improvements"

We have reviewed the subject report and have the following comments:

On Page 44, the report states "AID did not have any written program or financial administration regulation covering its funds awarded to the Foundation." The statement is misleading because the grant did, on Page 3, under "Use of Funds," spell out the purposes for which the funds were provided. The cost principles for allowable costs, OMB Circular A-21, were stated in Article I, "Allowable Cost and Method of Disbursement." In addition, the grant required a rather detailed annual progress report as well as quarterly fiscal reports.

Also, on Page 44, the impression is given that AID routinely executed a contract with the Family Health Foundation despite the fact that the proposed contractor "was being audited by HEW as a result of charges of fiscal mismanagement and was being investigated by a Federal Grand Jury." The facts are that prior to the award of the contract, AID carefully considered all of the issues concerning the Family Health Foundation and finally concluded that there was no reasonable basis for not proceeding with the contract. The contract was very closely administered. Three months after execution of the contract, the Federal Reserve Letter of Credit was modified to limit disbursements and special reporting arrangements were established.

On Page 55, the report states that the new regulation being proposed by ~~GSA~~ will not require that federal agencies determine prior to award of federal funds that a recipient has a financial management system which complies with established standards. It should be noted that the FPR Subpart 1-1.12 sets forth minimum standards for responsible prospective contractors and also a procedure for conducting preaward surveys. This procedure was followed in respect to the award of the contract with Family Health Foundation. AID's Grant Handbook also requires similar determinations of responsibility and preaward surveys when appropriate.

GAO note: Page references in this appendix do not necessarily agree with page numbers in the final report.



5010-108

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ACTIVITIES DISCUSSED IN THIS REPORT

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	<u>From</u>	<u>To</u>
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David Mathews	Aug. 1975	Present
Caspar W. Weinberger	Feb. 1973	Aug. 1975
Frank C. Carlucci (acting)	Jan. 1973	Feb. 1973
Elliot L. Richardson	June 1970	Jan. 1973
Robert H. Finch	Jan. 1969	June 1970
Wilbur J. Cohen	Mar. 1968	Jan. 1969
John W. Gardner	Aug. 1965	Mar. 1968
 SECRETARY OF HOUSING AND URBAN DEVELOPMENT:		
Carla A. Hills	Mar. 1975	Present
James T. Lynn	Feb. 1973	Feb. 1975
George P. Romney	Jan. 1969	Jan. 1973
 ADMINISTRATOR, AGENCY FOR INTERNATIONAL DEVELOPMENT:		
Daniel Parker	Oct. 1973	Present
John A. Hannah	Mar. 1969	Sept. 1973

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