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The Honorable John W. Wydler
House of Representatives

RELEASED

DECEMBER 22, 1980

Dear Mr. Wydler:

Subject: [Certain Activities of the Economic Opportunity Commission of Nassau County, New York] (HRD-81-23)

As you requested, we reviewed certain activities of the Economic Opportunity Commission and the Community Economic Development Corporation in Nassau County, New York. We provided the information you requested concerning the Corporation's activities in our August 15, 1980, letter. Summarized below and detailed in the enclosure is the information you requested concerning the Commission's activities.

During our review, we met with you and your staff several times to discuss the scope and status of our work. As agreed with your office, we directed our work at the Commission primarily to examining allegations about mismanagement of the Emergency Energy Assistance Program (EEAP), particularly allegations that the Commission had misused program funds. Also, as agreed, we reviewed certain reimbursements made to the Commission's executive director and the Commission's publication of a monthly newsletter.

We reviewed the Commission's accounting records for EEAP and traced selected transactions through the books of account. We also reviewed EEAP grant documents, applicable bank statements, audit reports, and pertinent correspondence and interviewed key Commission officials. The purpose of our review was to determine if the allegations concerning the use of EEAP grant funds were valid rather than to evaluate the effectiveness of program operations.

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It was alleged that EEAP funds were used for other purposes or were unaccounted for. The grant restricted the use of EEAP funds to program expenditures. The Commission commingled the funds with other Community Services Administration funds in the same bank account and made advances from this account to cover expenses of other programs. Accounting for EEAP funds was difficult because costs were recorded in different books of account or paid from different bank accounts and many checks were voided and written out of sequence. Nevertheless, we were able to account for the full amount of the grant. We found that the Commission had paid program benefits and incurred costs for administering the program in excess of the grant amount.

Other allegations of misuse of EEAP funds concerned (1) participating vendors not being paid, (2) funds being funneled to a Corporation-owned supermarket, (3) duplicate payments being made to participants, and (4) participants using program benefits to purchase unauthorized items.

Regarding these allegations, we found that:

- Payments to some vendors participating in the program were delayed.
- Program payments were advanced to the Corporation-owned supermarket on the basis of anticipated participation, contrary to the Commission's operating procedures.
- Some duplicate payments may have been made to participants, but the Commission acted to correct the problem.
- Some participants used their program benefits to purchase such items as swimsuits and pocketbooks, but the amounts involved, according to an independent accountant's estimates, would not have affected the total costs allowed under the grant.

While Federal grants are usually restricted as to their use, the Commission had considerable funds available from non-Federal sources which it considered to be unrestricted. The principal source of these funds was the county's annual

grant for administration. Other sources included the United Way, revenues from vending machine sales, and donations from employees. These funds were used to pay the executive director's automobile and business expenses, which may not have been allowed under Federal regulations. The cost of publishing the Commission's monthly newsletter was also paid from the nonrestricted funds.

Although we have not given Commission officials a draft of this report for their written comments, we have discussed its contents with them and have considered their oral comments.

As arranged with your office, we plan to forward copies of this report to the Community Services Administration and the Commission 2 days after its issuance. At that time, copies will also be made available to others upon request.

Sincerely yours,



Gregory J. Ahart
Director

Enclosure

ECONOMIC OPPORTUNITY COMMISSION
OF NASSAU COUNTY, INC.

The Economic Opportunity Commission of Nassau County, Inc., designated by the county board of supervisors to be the county's community action agency, began operations in January 1965. The Commission is located in Hempstead, New York, and operates through 11 delegate agencies.

FUNDING

According to Commission records for its fiscal year ended July 31, 1979, it received funds totaling about \$7.9 million from the following sources:

	<u>Amount</u>
Federal sources:	
Community Services Administration (CSA)	\$2,660,000
Department of Health, Education, and Welfare (note a)	1,620,000
Department of Agriculture	352,000
ACTION	<u>268,000</u>
Federal funds	<u>4,900,000</u>
Non-Federal sources:	
State	495,000
County	2,193,000
Villages, municipalities, charities, employee contributions, and others	<u>286,000</u>
Non-Federal funds	<u>2,974,000</u>
Total	<u>\$7,874,000</u>

a/Effective May 4, 1980, the Department of Health, Education, and Welfare was reorganized into two Departments--the Department of Health and Human Services and the Department of Education.

Funds considered unrestricted by the Commission

The use of Federal grant funds is generally restricted by conditions stipulated in the grant document. However, the Commission had considerable funds available from non-Federal

sources that it considered to be unrestricted. These funds were accounted for in the corporate books.

Before 1977 the county administrative grants were unrestricted as to their use. Starting with its 1977 grant, the county restricted the use of its grant funds to pay for specific items in the budget the Commission submitted in support of its request for the county grant. However, the Commission continued to treat as unrestricted the amount by which budgeted items were underspent.

As of July 31, 1977, the balance of funds in the corporate books, which were composed of amounts budgeted in the county grant but unspent and funds received from non-government sources, amounted to \$285,000. Although we did not make a detailed audit of the county's 1978 grant, during our review of the Commission's accounting records, we noted that budgeted items in the county's grant were underspent by about \$300,000.

The Commission used the unrestricted funds to pay for such items as

- the executive director's automobile and business expenses;
- the cost for economic development activities not carried on by the Community Economic Development Corporation;
- publication of the "Community Advocate," the Commission's monthly newsletter; and
- costs unallowable under criteria embodied under specific grants.

THE COMMISSION'S ACCOUNTING SYSTEM

The Commission's accounting system provides separate sets of books consisting of cash receipts and disbursement journals, a voucher register, and a general ledger for each major funding source.

Book No. 1, referred to as the "Corporate Books," is maintained to account for the county's annual grant for administration and for revenues received from nongovernment sources, such as United Way, employee contributions, and

vending machine receipts. Book No. 2 is maintained to account for funds received from CSA. The other sets of books are Book No. 3 for Department of Health, Education, and Welfare funds, Book No. 4 for other federally funded programs, Book No. 5 for New York State-funded programs, and Book No. 6 for other county-funded programs. Separate sets of books are also maintained for a county-funded drug program (Book No. 7) and for payrolls (Book No. 8). Also, 13 separate bank accounts were maintained.

INTERFUND TRANSFERS

During fiscal years 1978 and 1979, interfund transfers recorded in the accounting records amounted to about \$4 million each year. Commission officials advised us that interfund transfers were made primarily to make or repay loans to other funds and/or allocate expenses paid by one fund on behalf of another. Interfund transfers were posted in each set of books to an interfund control account. However, the purpose for the transfer was not always shown in the accounting records, and as a result, tracking the flow of moneys as they were transferred between funds was difficult.

Regulations do not prohibit interfund borrowing

CSA regulations do not prohibit interfund borrowing and in fact suggest that grantees take the following actions when a re-funding grant is delayed:

- Use unexpended and carryover balances.
- Use other available CSA funds temporarily.
- Arrange for temporary use of any other funds.
- Postpone payment of all but fixed expenses.
- Obtain an interest-free loan, if possible, or pay the loan costs from nongrant funds.

The Commission's comptroller advised us that, when grants are received late, the only alternative is to make interfund transfers and that funding sources are aware of this practice.

EMERGENCY ENERGY ASSISTANCE PROGRAM

In 1978 the Congress appropriated funds for CSA's Emergency Energy Assistance Program (EEAP). ^{1/} The program's purpose was to alleviate the burden of extraordinarily high home heating costs on low-income families.

The Commission was given grants totaling \$849,000 to operate the program in Nassau County. According to the Commission's records, the program served about 15,700 households in Nassau County.

How program benefits were delivered

Applications for benefits under the program were made at the delegate agencies. Assistance to any one household was limited to \$250. To qualify, a household must have met two requirements:

- Income eligibility, defined as income no higher than 125 percent of CSA's poverty guideline.
- Program eligibility, which required a determination that an emergency energy need existed and that the household lacked the fiscal resources to meet the need.

Cash payments were not made directly to the applicants. Qualified applicants either had their unpaid utility or fuel bills paid by the Commission or were given vouchers that could be used to purchase food or other items at vendors specified by the delegate agency.

Allegations concerning EEAP

Newspaper articles on the Commission's administration of EEAP alleged that program funds either were used for other purposes or were unaccounted for. Other allegations of misuse of EEAP funds concerned (1) participating vendors not being paid, (2) funds being funneled to a Corporation-owned supermarket, (3) duplicate payments being made to participants, and (4) participants using program benefits to purchase unauthorized items.

^{1/}Supplemental Appropriations Act, 1978 (Public Law 95-240, Mar. 7, 1978).

EEAP funds used for other purposes

All EEAP grant funds were deposited in the same bank account that was used for all other CSA grant funds. Although the grant required that the funds be used for EEAP expenditures, advances were made from this account to meet the expenses of other programs. For example, in a December 15, 1978, report on an audit by CSA's New York regional office, \$110,360 of EEAP grant funds was identified as being used to help pay the salaries of the CSA Neighborhood Services Program. The Commission's comptroller explained that, since payrolls had to be met and receipt of Neighborhood Services Program funds had been delayed, the Commission was forced to use EEAP funds, as well as other funds, to temporarily meet these expenses.

Tracking program expenditures through the books of account was difficult because many checks were written out of sequence, voided on one disbursement journal, and ultimately disbursed from another disbursement journal. Also, payments of program expenses were made from two separate disbursement journals within Book No. 2 and from the corporate books, Book No. 1.

However, eventually we were able to account for the full amount of the EEAP grant. Our review showed that the Commission had paid \$883,373 to vendors under the program and incurred \$127,583 in administrative costs, resulting in total program costs of \$1,010,956. Commission officials advised us that the excess of program costs over the total grants received--amounting to \$161,956--was paid from non-Federal funds and funds that were made available for the EEAP Extended Program. 1/

Vendors not paid

In December 1978, a CSA investigator found that checks to vendors participating in the program totaling \$94,192 were stored in a file cabinet. According to Commission officials, they delayed paying the vendors because EEAP funds had been advanced to cover payroll and other program operating expenses. They explained that these advances were necessary because funds due from the CSA, State, and county annual administrative grants had been delayed.

1/Additional funds were provided the Commission when a court order required CSA to extend the 1978 EEAP.

Our examination of the Commission's bank statements showed that, as of July 1979, all but a few checks amounting to \$869 had been paid.

The Commission had also withheld checks to vendors under the 1979 energy assistance program. In November 1979, we found checks totaling \$106,000 stored in a file cabinet. Many of these checks had August 1979 dates. Commission officials advised us that these checks would be sent to the vendors when the Commission's cash flow improved. Our followup showed that all but a few checks amounting to \$50 had been paid.

Funds funneled to
Corporation-owned supermarket

Preferential treatment was given to a supermarket (CEDShop) owned by the Community Economic Development Corporation of Nassau County. While vendors were to receive payment only after they had submitted used vouchers as proof of sale, the Commission, to improve CEDShop's cash position, made advances of EEAP funds to the supermarket on the basis of anticipated program participation.

Of about \$222,000 paid to the supermarket, all but about \$14,000 was ultimately supported by used vouchers when the supermarket went bankrupt and ceased operation in September 1979. CEDShop was discussed in greater detail in our August 15, 1980, report on the Corporation's activities.

Duplicate payments made

Commission officials acknowledged that some duplicate benefits may have been received by participants but said this problem was not widespread. They explained that, when the program was started, participants could have applied for benefits at more than one delegate agency. When it learned of this possibility, the Commission suspended the program temporarily and revised its system for accepting applications. Under the new system, each delegate agency could accept applications only from households located in designated geographic areas.

Participants' misuse of program benefits

An independent certified public accounting firm audit disclosed that some participants had used their vouchers to purchase such items as swimsuits and pocketbooks. The accountants estimated that about \$12,600 was used for such purchases. However, the accountants did not take exception to the expenditures because they felt that CSA's regulations were vague as to the types of items that could not be purchased. CSA regional office officials agreed that the regulations were not clear on this matter.

We believe that the regulations intended that vouchers be used only for winter-related items, such as blankets, warm clothing, and nutrition. However, since total program costs exceeded the Federal grant by about \$162,000 (see p. 5), taking exception to the relatively small amount of funds--about \$12,600--used to purchase non-winter-related items, such as swimsuits and pocketbooks, would not affect the total costs that would have been allowed and accepted under the grant.

ALLOWANCES PAID TO EXECUTIVE DIRECTOR

During fiscal year 1979, the Commission's executive director was paid monthly allowances totaling \$5,400 as reimbursement for automobile and business expenses. These allowances were charged to the corporate accounts and did not involve Federal funds. Had the allowances been paid from CSA grant funds, they would not have been allowed since they were not paid in accordance with Federal regulations.

The automobile and business expense allowances were paid in monthly installments of \$300 and \$150, respectively, without requiring the executive director to submit supported claims for reimbursement. We were advised that the automobile allowance was to reimburse him for the use of his privately leased automobile and that, before this arrangement, the Commission had leased an automobile for his use.

Under Federal regulations, reimbursement for the use of privately owned or leased vehicles is restricted to a specified rate per mile for the actual mileage incurred while on Government business. Also under Federal regulations, business expenses are limited to authorized expenses actually incurred. Federal regulations further provide that claims for reimbursements of travel and business expenses must be submitted on authorized reimbursement forms, be itemized, and be supported by appropriate documentation.

THE COMMISSION'S COMMUNITY NEWSLETTER

In September 1979, the Commission began publishing a monthly newsletter, "Community Advocate," which was distributed to county residents. Articles in one edition of the newsletter were critical of an appointed official of the county, and an article in another edition was critical of an elected official from the county. CSA prohibits the use of its grant funds for partisan political activity. However, the cost of publishing the newsletter was charged to non-Federal funds.

CSA AUDITS OF COMMISSION ACTIVITIES

From 1976 through early 1979, CSA's auditors issued 11 reports on audits and investigative inquiries of the Commission's activities. Some of the matters we reviewed were also discussed in the CSA reports.

In December 1978, the CSA regional office auditor reported that EEAP funds had been commingled with other CSA funds and had lost their identity. However, the auditor added that all EEAP funds could be accounted for.

In November 1977, the CSA regional office auditor reported that the executive director was being paid monthly allowances for his automobile and business expenses without submitting supported claims. The report discussed the non-restricted funds available to the Commission from county and other non-Federal sources. The auditor concluded that, while the allowances paid to the executive director would not be allowed under Federal criteria, they were paid from these non-Federal funds.