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Financial Records and Documents of National Organizations Supporting Antipoverty Work. HRD-77-158; B-130515. October 7, 1977. 3 pp. + 2 appendices (41 pp.).

Report to Rep. Cardiss Collins, Chairman, House Committee on Government Operations: Manpower and Housing Subcommittee; by Elmer B. Staats, Comptroller General.

Issue Area: Income Security Programs: Program Monitoring and Administration (1303).

Contact: Human Resources Div.

Budget Function: Education, Manpower, and Social Services: Social Services (506).

Organization Concerned: Community Services Administration; National Center for Community Action.

Congressional Relevance: House Committee on Government Operations: Manpower and Housing Subcommittee.

The Community Services Administration (CSA) needs to increase control over grantee funds going to nongrantee organizations whose purpose is to support the Government's antipoverty effort. Findings/Conclusions: Review of the financial records and documents of five national organizations that are not Federal grantees and the National Center for Community Action, a private nonprofit organization that is a grantee of CSA, showed that: some CSA grant funds were ultimately channelled into the lobbying organizations; the financial and administrative activities of the six organizations were closely controlled through interlocking directorates and executive positions; the financial controls necessary for the prudent expenditure of funds were not maintained for the nongrantee organizations; and no mechanisms were in use to evaluate the worth of nongrantee organization functions to the antipoverty effort. Recommendations: The CSA should establish basic operational criteria for adoption by nongrantee organizations that indirectly receive CSA funds requiring: published annual audits by certified public accountants, mechanisms for the CSA to assess the performance and contribution of organization functions to the antipoverty effort, clear and concise records of travel and other organizational expenditures in support of community action agencies' efforts, and provision for Federal access to records of the organizations. CSA should withhold approval of financial support by grantees of any organization not in conformance with its operational criteria. (SC)

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10/7/77

REPORT OF THE COMPTROLLER GENERAL OF THE UNITED STATES

Financial Records And Documents Of National Organizations Supporting Antipoverty Work

The Community Services Administration needs to increase control over grantee funds going to nongrantee organizations whose purpose is to support the Government's antipoverty effort. Procedures should be set up to prevent grantees from financially supporting organizations that do not

- keep adequate financial records,
- obtain annual audits by certified public accountants,
- provide Federal access to records, or
- adopt procedures for evaluating the contributions of the organizations to the Government's antipoverty effort.



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20540

B-130515

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

Dear Madam Chairwoman:

In response to your letter of May 2, 1977, we have completed our review of the financial records and documents of five national organizations that are not Federal grantees and the National Center for Community Action, a private nonprofit organization that is a grantee of the Community Services Administration. The stated purpose of these organizations is to support the community action program through training, technical assistance, lobbying, or related activities or a combination thereof.

Primary support for three nongrantee national organizations comes indirectly from the Community Services Administration through membership dues and registration fees paid by the Community Services Administration supported members and from the Community Services Administration funded travel to organization functions. Two other nongrantee organizations were lobbyists funded through contributions. The results of our review are described in appendix I.

Records of one organization and the Center were furnished voluntarily; the records of the other four private organizations were obtained by Committee subpoena. The records were incomplete in many respects and required substantial reconstruction for financial audit. Information necessary to evaluate the effectiveness of the organizations' functions in supporting community action objectives was not generally a matter of record.

We were able to determine that

--some Community Services Administration grant funds were ultimately channelled into the lobbying organizations,

- the financial and administrative activities of the six organizations were closely controlled through interlocking directorates and executive positions,
- the financial controls necessary for the prudent expenditure of funds were not maintained for the nongrantee organizations, and
- no mechanisms were in use to evaluate the worth of nongrantee organization functions to the antipoverty effort.

Recognizing that there was a need for closer Federal control over the activities of nongrantee organizations, the Director of the Community Services Administration proposed new regulations that would prohibit its grantees from using funds for membership dues and out-of-state travel to functions of these organizations without prior Community Services Administration approval, and prohibit payroll deductions for voluntary contributions to lobbying organizations. Pending implementation of these regulations and needed changes in the management of these organizations, the Community Services Administration placed a moratorium on further use of grant funds to support the organizations. (See app. II.)

We are recommending that the Community Services Administration establish basic operational criteria for adoption by nongrantee organizations that indirectly receive Community Services Administration funds requiring

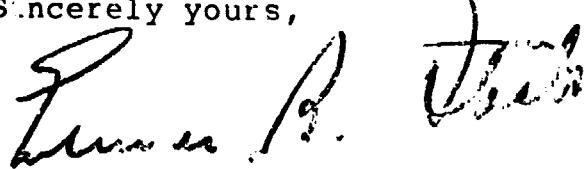
- published annual audits by certified public accountants,
- mechanisms for the Community Services Administration to assess the performance and contribution of organization functions to the antipoverty effort,
- clear and concise records of travel and other organizational expenditures in support of community action agencies' efforts, and
- provision for Federal access to records of the organizations.

The Community Services Administration should withhold approval of financial support by grantees of any organization not in conformance with its operational criteria.

At the Subcommittee's request, the information presented in appendix I was not provided for comment to officials of the nongrantee organizations, the Center, or the Community Services Administration. We did discuss information in appendix I that was not generally a matter of official records received voluntarily or in response to the Committee subpoena with agents or officials of these organizations, and considered their views in completing our report.

This report should be made available by the committee to the Department of Justice for consideration in its ongoing investigations. As arranged with your Office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from the date of the report. At that time we will send copies to interested parties and make copies available to others upon request. The records furnished to us pursuant to subpoenas issued by the Committee on Government Operations are being returned to the Committee under separate cover.

Sincerely yours,



Comptroller General
of the United States

NATIONAL ORGANIZATIONS WHICH SUPPORT
THE COMMUNITY ACTION PROGRAM

There are six organizations currently in existence which were created with the principal objective of supporting the community action program through such activities as providing: (1) training, technical assistance, continuing education, and information exchange to individual members and community action agencies; (2) a focal point for lobbying efforts regarding anti-poverty legislation; and (3) a mechanism by which community action agencies can influence Community Services Administration (CSA) policy decisions impacting on the antipoverty effort.

ORGANIZATIONAL OBJECTIVES

The National Center for Community Action is a CSA grantee with the stated purpose of providing assistance to community action agencies and related organizations through research, information, training, and technical services. During the 2-year period ending in March 1977, the Center received CSA grant funds totaling almost \$1.2 million. In testimony before the House Government Operations Subcommittee on Manpower and Housing in March 1977, CSA indicated that the training and technical assistance provided to community action agencies by the Center has been of "considerable benefit," particularly in recent years when the agency's appropriations have been limited for such services.

The National Community Action Agency Executive Directors Association is a professional association whose membership is limited to executive directors of community action agencies. The organization's objectives, as identified in its bylaws, include providing a mechanism for continuing education and information exchange for members and for serving as a means by which community action agencies can influence CSA's antipoverty efforts. While the Directors' Association is not a direct CSA grantee, the agency permits use of community action agency grant funds for membership dues, registration fees, and travel costs connected with association functions.

The National Association for Community Development is a general membership professional organization established with the stated objectives of encouraging, promoting, and stimulating community development of human resources. As such, it conducts workshops and

training seminars at its annual convention and during the year at various locations throughout the country. The Association maintains two types of memberships--individuals and community action agencies. Like the Directors' Association, the Association for Community Development is not a direct CSA grantee; however, CSA permits use of grant funds for agency memberships and for registration fees and travel costs incurred by community action agency employees to attend association functions.

During the March 1977 hearings, CSA estimated that as much as \$750,000 of CSA grant funds are spent annually by community action agencies to support employee participation in the activities of the Directors' Association and Association for Community Development. CSA also stated during the hearings that the services of the two associations are of great value and that they provide training and workshops which are responsive to the needs of community action agencies.

There are three national organizations in addition to those identified above which were created to support the community action program. Two of these--the National Community Action Trust Fund and Communities in Action Together--are lobbying organizations funded through voluntary contributions and as such are prohibited from directly or indirectly receiving Federal funds. The National CAA Legislative Forum is an organization established by the Directors' Association and Association for Community Development to prepare proposed antipoverty legislation. The Forum is funded primarily through registration fees for its meetings. Such fees may be paid from CSA funds.

EVALUATING PERFORMANCE AND FINANCIAL ADMINISTRATION

Financial records and documents pertaining to four of the five organizations which are not CSA grantees were obtained pursuant to subpoenas issued by the House Committee on Government Operations. Records of the Center and another organization were furnished voluntarily. The records furnished indicated that the accounting procedures and practices followed by these organizations were, in many instances, not adequate for audit.

The Association for Community Development's accounting records and related documentation were insufficient to permit identification of the sources of receipts, particularly the magnitude of funds derived from CSA grants. The records did not contain sufficient information for verification of all expenditures, particularly

those related to salaries and travel.

Basic accounting records requested in the subpoenas were not provided by the National Community Action Trust Fund or by the National Legislative Forum for the period when the current president of the Directors' Association was Forum Chairman. As a result, it was necessary for the organizations to request their banks to furnish copies of checking account receipt and disbursement documents in order to develop partial analyses of financial activities, and the supporting documentation for the transactions of both associations was incomplete. Regarding the Trust Fund, comparison of gross annual salary schedules with payroll checks indicated that Federal taxes are not withheld from employees' pay. The record of disbursements indicated no payments to the Internal Revenue Service and no withholding forms were provided in response to the subpoena.

While the accounting records and related documents furnished by the Directors' Association for 1975 to 1977 were substantially complete, the association could not locate the 1974 records requested in the subpoena. According to the attorney for the Directors' Association, the Association had considered applying for tax-exempt status as a nonprofit corporation in 1974, but did not formally apply at that time. Three years later questions were raised by CSA and the Association concerning the Association's tax status. There was also no evidence in the financial records that the organization had filed Federal income tax returns for the past 2 years, and to the knowledge of the Association's attorney none have been filed.

The documents furnished by the nongrantee organizations pursuant to the Committee's subpoenas do not contain information necessary to assess the nature and value of the services provided by the associations to the community action program. Evaluative material on the benefits derived from annual conventions, such as participants' assessments describing the objectives and accomplishments derived from official travel, were not provided. Based on CSA estimates and a review of the financial records provided, substantial CSA grant funds are expended in support of membership dues, registration fees and related participants' travel costs in connection with annual conferences, and travel costs of officers of the two principal nongrantee organizations that were not avowed lobbyists.

At the March 1977 hearings, a CSA official testified that CSA has not reviewed the financial records of the five nongrantee organizations because there may be a question of propriety and right of access. He also indicated that the agency has no formal mechanism for evaluating association sponsored conferences and seminars attended by CSA employees.

CSA's policy of not reviewing the financial activities of organizations which indirectly receive grant moneys contrasts with the agency's oversight of the financial activities of direct grantees, many of which are funded at levels lower than the amount of grant funds CSA estimates are expended in support of the Directors' Association and the Association for Community Development. CSA requires such grantees to be audited annually by certified public accountants, and reviews the audit reports for compliance with agency regulations. Since CSA established the regulation permitting grant funds to be expended in support of the activities of the nongrantee organizations, it could also revise the regulation to condition such support on access to their financial records. CSA could also establish a mechanism requiring formal evaluations by agency employees attending association sponsored conferences and seminars.

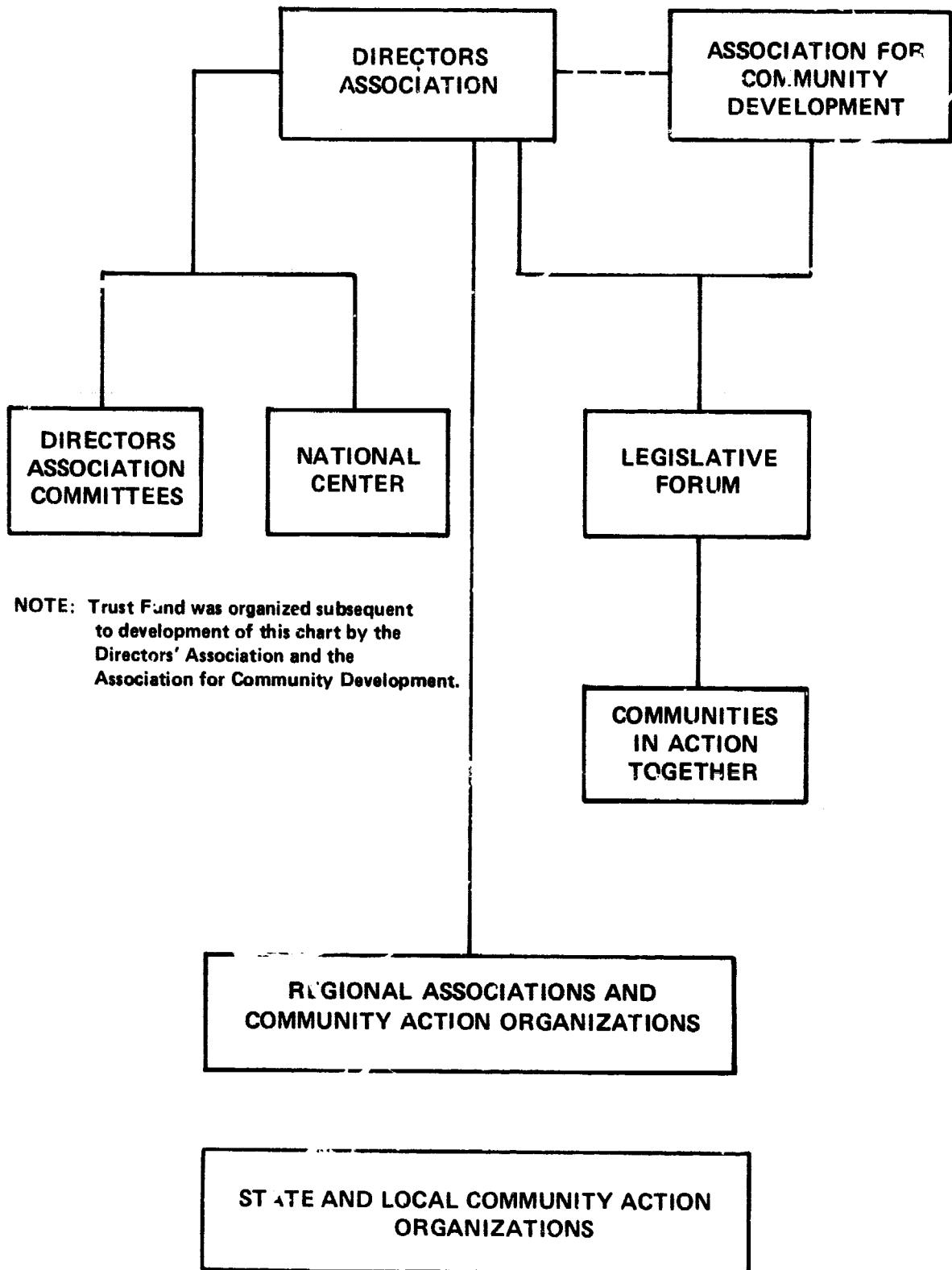
ORGANIZATIONAL INTERRELATIONSHIPS

In January 1976 the president of the Directors' Association, before a meeting of the Association's Board of Directors, defined the roles of the Association for Community Development, the Center, the National Legislative Forum, and the Directors' Association. The Board accepted the definitions and proceeded to develop and adopt the following organization chart (see p. 5) depicting the relationships among the organizations, during which discussion centered around the reporting requirements of the Association for Community Development and the Center to the Directors' Association Board of Directors.

The records furnished by the organizations reflect mutual leadership responsibilities in the Board of Directors and executive positions.

--The president of the Directors' Association was a member of the board of directors of the Association for Community Development and the Center (a CSA grantee).

--The president of the Association for Community Development was on the board of directors of the Directors' Association.



--The presidents of the Directors' Association and the Association for Community Development were also the president and treasurer, respectively, of the National Community Action Trust Fund, an organization created by coordinated action of the officers of the two associations for the purpose of engaging in lobbying activities pertaining to antipoverty legislation.

--The secretary-treasurer and two vice presidents of the Association for Community Development served on the board of directors of the Trust Fund, as did two members of the Directors' Association board of directors.

Communities in Action Together is a corporation which was set up by the Directors' Association to engage in lobbying activities. The National Legislative Forum--established to prepare proposed antipoverty legislation--was, according to its recent past chairman, controlled by the Directors' Association, the Association for Community Development and the Trust Fund.

In September 1976 and March 1977 the Center began providing office space and administrative support from CSA grant funds to the Directors' Association and the Trust Fund, respectively. CSA has advised the Center that it will disallow expenditures of any Center grant funds to support the Directors' Association and the Trust Fund (an avowed lobbying organization). As of September 15, 1977, both organizations were still occupying Center office space. The Center was attempting to recover the costs of its support from the Trust Fund and had asked the Trust Fund to vacate the Center office space.

In addition there were a number of interassociation fund transfers, including two loans of \$5,000 each from the Directors' Association and the Association for Community Development to the lobbying associations and loans totaling \$1,400 from the Forum to Communities in Action Together.

NATIONAL COMMUNITY ACTION AGENCY EXECUTIVE DIRECTORS ASSOCIATION

The National Community Action Agency Executive Directors Association is a national organization whose membership is limited to executive directors of community action agencies. The Directors' Association, which was established in 1971, has the stated goals of providing for continuing education and information exchange for individual members, a vehicle for presenting problems and alternatives related to the antipoverty effort to CSA officials, and

a means by which community action agencies can have an impact on policy decisions affecting their constituency.

The Directors' Association is governed by an 18 member board of directors comprised of the 7 association officers, 10 regional representatives, and a representative of the National Association for Community Development. The officers, which consist of the president, three vice presidents, the secretary, the treasurer, and the immediate past president, are elected by the membership for 2 years and can serve no more than two consecutive terms in the same office. The regional representatives are selected by the respective regions for 1-year terms and can serve no more than three consecutive terms. The president is the chief executive officer and has the responsibility for presiding at all meetings of the Association and its Board of Directors. He also appoints the chairpersons of all committees and most of the standing committee members, subject to approval by the Board.

Membership dues received by the Association during the operating year ending April 1977 indicate that about 520, or 60 percent of the directors of community action agencies are members of the Association.

Funding

CSA permits use of grant funds for membership dues, registration fees, and travel to Association functions, which include the annual conference and quarterly board meetings. While the financial records obtained pursuant to the Committee's subpoena do not permit a precise estimate of the magnitude of CSA funding involved, total receipts by the Association for the 1977 operating year were almost \$100,000. Because a substantial portion of the moneys received were from membership dues (almost \$26,000) and annual conference registrations (about \$55,000)--both of which may be reimbursed from CSA grant funds--CSA funds comprise a majority of the Association's annual receipts. The balance of moneys received was primarily from conference exhibitors and advertisers. Furthermore, unofficial CSA estimates, based on estimated conference attendance and average travel costs indicate that an additional \$200,000 of travel costs for conference participants may be reimbursed by individual community action agencies from CSA grant funds.

Because financial records of individual community action agencies were not reviewed, the amount of CSA grant funds expended to support members' travel and related costs to attend board of directors meetings could

not be determined. However, such meetings are held at least quarterly in various locations in the country and are attended by most board members. For example, during the year ended September 1976, Directors' Association board meetings were held in Washington, D.C.; Fresno, California; Memphis, Tennessee; New Orleans, Louisiana; Detroit, Michigan; and Hartford, Connecticut and were attended by an average of 15 members.

Disbursements

Disbursements by the Directors' Association during the 1977 operating year totalled about \$88,000, of which almost \$66,000 was related to the annual conference. Of the remaining \$22,000 of disbursements, more than \$12,000 was for travel during the period by the president of the Association.

The annual conference was held in Atlanta, Georgia, during October 1976 and was attended by about 1,000 participants. About \$24,500 was paid to the hotel hosting the conference and was comprised of expenses for dinners and luncheons of about \$20,000, gratuities of about \$2,600, exhibit room rental of \$900, liquor and hospitality of \$551, and miscellaneous expenses of about \$400.

According to the treasurer of the Directors' Association, a further disbursement was made to the hotel in August 1977, after the period covered by the Committee subpoena. The expenses incurred by the Association related to conference bills furnished in response to the subpoena which totalled about \$2,300, and were primarily for room charges of about \$2,100 and liquor and hospitality of almost \$200. While the nature of about \$1,100 of charges transferred from one room to another could not be determined from the records, the expenses were apparently charged to the president's room and presumably included his lodging. The remaining room charges of about \$1,000 consisted primarily of restaurant expenses of almost \$600 and individual room rental for the conference consultant of almost \$300.

Of the remaining disbursements of about \$41,000 for the convention, about \$37,000 was paid to a consultant introduced to the board of directors by the president and retained to organize and manage the conference. There was no evidence in the minutes that the board had considered any other organizations to manage the conference. While the consultant expenses had been offset to some extent by about \$15,000 in receipts from conference exhibitors and advertisers, a number of these were Federal and community action agencies and state community action associations.

The disbursements of about \$12,000 for travel by the president of the Directors' Association covered the 14-month period from October 1975 to January 1977. During the period, the president made over 40 trips and was in travel status for 137 days, or about 43 percent of total available work days and 31 percent of total calendar days. In many instances, expense receipts were missing or incomplete.

During the period from April 1976 to January 1977, when the president made 19 trips, the Directors' Association treasurer noted 16 instances where expense statements submitted did not contain required certifications and original signatures. For example, the president traveled to Puerto Rico in January 1977 to attend the inauguration of the Governor and to visit a local community action agency. The expense statement submitted to the Directors' Association for reimbursement contained neither a certification nor an original signature. While the expenses claimed and reimbursed amounted to about \$366, including \$310 for accommodations, the Association treasurer computed the allowable expenses at \$175. Regarding six other trips, the treasurer's computations of allowable expenses on a per diem basis were significantly lower than those claimed; in five cases the differences were between \$35 and \$68 and in the sixth the difference was almost \$230.

In several instances the president did not request reimbursement from the Association for airfare. Because the records of his local community action agency were not reviewed, it could not be determined whether the airfares were reimbursed from local CSA grant funds. Examples include the Puerto Rico trip discussed above, the Atlanta Conference, and a November 1975 trip to the Virgin Islands to attend the Tenth Anniversary of a local community action agency. Regarding the latter trip, the president was reimbursed by the Association for accommodations and meals of about \$200, but did not request reimbursement from the Association for the airfare of about \$550.

There is no evidence in the documentation furnished of controls over travel of the Association president, such as review and approval by the board of directors of proposed travel itineraries supporting available budgets. Finally, while the position of president is uncompensated, CSA funds the president's salary as executive director of a community action agency and is therefore indirectly supporting Directors' Association activities during those workdays he is absent from the local agency on Association travel.

Directors' Association bylaws specify that each disbursement of funds requires the signature of the treasurer and the president or officer performing the duties of the president. The Association's primary checking account is maintained in Los Angeles, California, where the current treasurer is an executive director of a community action agency.

In early 1977 the Association opened another checking account in Washington, D.C., in connection with activities of the Association office funded by the National Center for Community Action discussed below. Disbursements from this account during the 5-month period ended in May 1977 totalled about \$960 and were primarily for meeting expenses of \$830.

Deposits to the Washington, D.C., account during the period amounted to about \$1,900 and were derived primarily from registration fees for the quarterly board of directors meeting of almost \$900 and from sales of Association products of about \$800. The products, which include T-shirts, bumper stickers, cuff links, lapel pins, and paperweights were similar to those sold at the annual convention and were acquired from the conference consultant.

The motion adopted by the Board authorizing establishment of the account specified it was a fund-raising account for deposit of receipts from the sale of products. The motion did not authorize deposit of meeting registration fees or disbursements for meetings and other expenses, nor did it constitute an amendment to the bylaws regarding required signatures on disbursements. Nevertheless, checks were drawn on the Washington, D.C., account for such expenses and were signed by the president and a member of the staff of the Washington, D.C., office, rather than by the treasurer as required in the bylaws.

According to the attorney for the Directors' Association, the Association had considered applying for tax-exempt status as a nonprofit corporation in 1974, but did not formally apply at that time. Three years later the president of the Directors' Association, apparently in conjunction with questions raised by CSA on the Association's relationship with the Trust Fund (see p. 28), asked the Association's attorney for his opinion on the impact this relationship might have on its status as a tax-exempt organization. The attorney recommended that the president obtain a formal ruling from the Internal Revenue Service regarding the impact of the relationship, but noted that he had not been provided evidence that the Association had received a determination of tax exemption from the

Internal Revenue Service. There is no evidence in the records obtained pursuant to the subpoena that the Association has filed any tax returns for at least 2 years, and to the knowledge of the Association's attorney no such returns have been filed.

Directors' Association actions

The records and documentation reviewed do not provide sufficient information to assess the value to the community action program of the activities engaged in by the Directors' Association. In terms of the Association's budget, the major expenditures are incurred for the annual conference and for travel by the president. Documentation was not available to determine whether a 5-day conference held once a year merits an investment of grant funds which CSA estimates may exceed \$250,000. Also the benefits derived from substantial travel of the Association president could not be assessed due to limited documentation and records of the results obtained from the travel.

In September 1977, the Directors' Association engaged the services of Main Lafrentz & Co., Certified Public Accountants. The services to be provided by the firm include

- Examining and expressing an opinion on the Association's financial statements of September 30, 1978.
- Recommending internal recordkeeping procedures and controls necessary to insure that all disbursements are properly authorized and documented and that travel expenses are in accordance with Federal Government travel regulations.
- Assisting the Association in implementing recommendations.
- Taking steps to attempt to qualify the Association as a tax-exempt organization under the Internal Revenue Code.
- Identifying and reviewing on request required government filings.
- Reviewing Association procedures for the election of officers and ascertaining that the requirements in the bylaws are complied with.
- Sending copies of all reports prepared in connection with the Association's financial or other matters to CSA upon completion.

The firm noted the understanding that its reports will be available for inspection by Association members and representatives of the Federal Government. In order to effectively carry out its services, the firm specified that certain changes recently adopted by the Board of Directors

must be implemented, including establishing the Association's principal place of business in Washington, D.C., and maintaining exclusively in that office all corporate and financial records, bank accounts, and adequate staff to perform the recordkeeping functions.

The Association president noted concurrence with the terms of the engagement and the services to be provided.

NATIONAL ASSOCIATION FOR COMMUNITY DEVELOPMENT

The National Association for Community Development was incorporated in March 1965 to serve in an exclusively charitable and educational capacity, with the stated objectives of encouraging, promoting, and stimulating the community development of human resources. It serves as one of several general membership organizations of the community action world and considers itself a recognized spokesman for community action agencies and the country's poor.

The Association's membership is drawn from individuals and agencies who are active supporters of the program concept and dues from its members constitute one of its primary sources of revenue. It is governed by an elected board of directors intended to reflect a geographic and ethnic balance in all represented areas. The directors serve 3-year terms with one-third elected annually. Association officers are elected for 2-year terms and the president acts as board chairman. The Association employs a director and other administrative employees to administer daily operations.

The Association's records furnished in response to the Committee subpoena were provided piecemeal over a period of several weeks. Financial records furnished were insufficient to identify revenues and in many cases expenses lacked supporting documentation. In addition, although Association records indicate that at least two annual budgets were adopted during the period covered by the subpoena, only one budget was provided.

Funding and membership sources

The Association for Community Development's financial statements show its primary sources of funds are membership dues and proceeds from its annual conference. Association bank records show gross receipts of about \$95,000 in 1974; \$141,000 in 1975; \$108,000 in 1976; and \$47,000 from January through April 1977. Bank deposits and other records

provided in response to the Committee subpoena were insufficient to identify most sources of these receipts, including those derived indirectly from CSA grant funds.

Annual membership dues are established by the Association's board of directors and currently range from \$7.50 for low-income individual membership to a high of \$500 for community action agencies with large budgets. While a CSA regulation permits the use of grant funds to pay agency membership dues, Association records supplied in response to the subpoena were inadequate to identify the composition of the membership for the last 3 years. Its financial statements for January 1975 to October 1975 show that \$86,763 was received in membership dues and contributions for that period. Financial statements for calendar year 1976 show membership receipts of \$58,595.

The Association's membership records indicate considerable fluctuations and inconsistencies in individual and agency memberships. For example, in June 1975 it placed its individual and agency memberships at 16,000 and 200 respectively, and in September 1975 at 14,000 and 130 respectively. Six months later in March 1976, its director reported to the quarterly board meeting that the number of individual members had dropped to less than 10,000. In February 1977, responding to questions from the Chairwoman, Manpower and Housing Subcommittee, the Association stated that its membership was approximately 20,000. However, in response to the Committee's subpoena, it provided a listing reflecting memberships at July 1977 of 5,056 individual and 41 agency members. Dues from these members totalled \$54,367, of which \$11,675 or 21 percent represents community action agency memberships. The ability of the National Association for Community Development to function as a general membership organization representing the community action organizations must be considered in the context of the community action program which comprises about 860 community action agencies with about 110,000 staff members.

Board meetings

The Association for Community Development's bylaws provide for regular quarterly meetings of the board of directors. A CSA travel regulation considers travel costs to these meetings an allowable expense for community action agencies. During 1976 board meetings were held in Little Rock, Arkansas; Washington, D.C.; Houston, Texas; and San Francisco, California. In addition to these regular

board meetings, the Association's president has the authority to call meetings of the executive committee which consists of Association officers and all committee chairpersons who are board members. In 1976, executive committee meetings were held in Chicago, Illinois; New Orleans, Louisiana; and Lake Tahoe, Nevada.

The Association's records also indicated that in 1975 Association subcommittees held meetings in San Diego, California, and Miami, Florida. In the past its president justified meetings in high-cost areas on the basis that it allowed participants new opportunities which they would probably never have been exposed. During the September 30 to October 2, 1976 board meeting, the Association's president informed the members that CSA officials had called his attention to numerous meetings held in various sections of the country and questioned the amount of coordination between these meetings and regularly scheduled board meetings. Because of this, the Association's board accepted a policy position that all subcommittee meetings be scheduled in conjunction with regular quarterly board meetings and that any extraordinary meetings be called by the president.

The president testified in March 1977 that the Association tries to hold its board meetings in different geographic sections of the country but that most of them are held centrally because of travel difficulties.

Association subcommittee chairmen presented reports on their activities during the regular quarterly board meetings. Details of these reports were not always included in the board minutes. Therefore, the overall effectiveness and usefulness of the Association's subcommittees could not be assessed.

Conferences and training

The National Association for Community Development considers itself both a professional organization and an organization through which those interested in the community action concept can express their concerns; share methods, services and delivery systems; and develop ideas. At its annual conferences, it conducts workshops and seminars covering various aspects of community development programs. Association records for 1975 indicated that at least two additional training seminars were held at different locations in the country.

While sufficient information was not made available to objectively evaluate the effectiveness and usefulness of these workshops, or the extent of community action agency participation in them, CSA's former acting director testified during hearings in March 1977 that they are responsive to the needs of the community action agencies. The acting director also testified that CSA has not established a formal structure for evaluating the usefulness of these workshops and seminars. In addition, records furnished in response to the subpoena contained no evidence that the Association had an established mechanism for evaluating these training sessions.

Although the Association's bylaws provide for an annual report by its president, no such reports which could be used to assess the Association's effectiveness were provided in response to the subpoena. The Association's attorney doubted the existence of any annual reports.

Substantial portions of receipts from annual Association conferences are derived from community action agency funds. Registrations for conference participants are considered allowable expenses from agency budgets by CSA, as are the related travel costs. CSA estimates the Association's annual conference expenses incurred by community action agencies amounts to \$50,000 in registration fees and \$250,000 in travel expenses. From available records it appeared that many community action agencies send large delegations of participants to the conferences. The registration information available for the Association's 1975 conference disclosed that 5 agencies paid pre-registration fees for 15 or more participants. Three of these agencies paid fees for 40 or more participants. These five agencies accounted for \$9,500 or about 28 percent of all 1975 conference registration fees.

Program expenditures

The Association for Community Development's bank records show disbursements of about \$89,089 in 1974; \$147,591 in 1975; \$102,258 in 1976; and \$46,897 for the first 4 months in 1977. Its major expenditures have been for payroll, presidential and staff travel, communications, and rent. There were some expenses in the largest expense categories--salary and presidential travel and expenses--which could not be reconciled with supporting documentation.

Salary expenses--the largest expenditure category--amounting to about \$71,596 from January 1974 through April

1977 were incurred to meet the payroll of the national headquarters staff, consisting in 1976 of a director and three staff members, and averaged about 19 percent of the Association's expenditures. Its payroll checks were drawn on accounts from three separate banks and in eight instances employees received multiple checks during the same pay period from two separate accounts, with each check in the amount of the employee's regular compensation. The purpose for these payments could not be determined from the records.

Association president's travel and expenses of \$24,472 accounted for about 7.2 percent of the Association's total expenditure of almost \$338,938 during calendar year 1974 through 1976. For the first 4 months in 1977 it amounted to \$10,451 and accounted for about 22 percent of total expenditures for that period. From April 1974 through December 1976, the Association's president made 44 trips and was in travel status for 144 workdays, or about 19 percent of the total workdays available. During January 1977 through April 1977, the president made 9 trips and was in travel status for 44 workdays or about 54 percent of total workdays available. During these periods, CSA funded the president's salary as executive director of a community action agency, thereby indirectly supporting Association activities during those workdays he was absent from the local agency on Association travel. There is no evidence in the documentation provided of controls over presidential travel, such as review and approval by the board of directors of proposed travel itineraries supporting available budgets.

Expense records provided in response to the Committee subpoena indicated several instances of unusually high accommodations and hospitality costs, and insufficient documentation for travel expenses incurred. Four out of 36 instances of presidential travel during 1975 and 1976 required lodging rates of \$75 or more a night in high-cost living areas. Board entertainment and hospitality costs were in excess of \$135 for several trips during 1976 and January through April 1977.

Examples of these trips include:

--A 3-day trip by the Association president to Chicago, Illinois to attend an Association executive committee meeting. Hotel room charges were \$97.29 per day. Claims for board entertainment were \$161.70 and consisted of restaurant expenses.

--A 3-day trip to Washington, D.C., to attend a National Association for Community Development and Directors' Association meeting. Hotel room charges for 2 days were \$90.10 and \$79.50. Restaurant charges of \$58.04 were also claimed for the trip.

--A 4-day trip to Washington, D.C., to attend a quarterly board meeting. Hotel charges of \$422 were not fully documented and \$85.65 was claimed for board members' meals.

Association records also disclosed at least one apparent overpayment for travel by the Association president during 1974. In June 1974, the Association's travel records indicate that the president received \$280 per diem advance at \$40 per day from his community action agency for a 7-day trip to Washington, D.C., on Association business. The president's hotel expenses for this trip were \$407.19 which he paid with his personal credit card. The president was reimbursed \$409.19 from Association funds for this trip. The Association reimbursed the president's community action agency \$280 for the per diem. From the available records, it appears that the president received a \$280 overpayment for this trip.

Regional affiliates

The National Association for Community Development's bylaws provide for affiliate membership for regional organizations of Association members who have elected officers and established bylaws which have been approved by the board of directors. According to the Association's counsel, these regional organizations are autonomous and not controlled by the National Association. Although records of these regional organizations were not included in the Committee subpoena, because they are affiliated with the National Association it may be that community action agency grant funds are also used for any travel expenses incurred by members.

Election difficulties

The minutes of the Association for Community Development's board of directors indicate a past problem in the election of its national officers and board members. The minutes show that during the 1975 elections a gross error was discovered in the ballots after they had been mailed to the general membership. Apparently a validated membership list was not used in mailing the ballots. To correct this error, a second set of ballots was mailed out and the first ballots were invalidated. The accounting firm handling the balloting process reported that 15,132 ballots were mailed and 8,242 eligible ballots were returned.

One of the Association's regional affiliates proposed that the election be declared null and void because large numbers of members did not receive ballots which, in effect, disenfranchised them. The affiliate also claimed that both sets of ballots were used to determine the election outcome. It further claimed that the Association's president, who was also a candidate in the election, violated his position in that he bypassed the Association's nominating committee and provided the accounting firm handling the election with a supposedly valid membership list. The affiliate's proposal was not accepted by the Association's board of directors.

NATIONAL COMMUNITY ACTION TRUST FUND

The National Community Action Trust Fund was established in 1976 by the National Community Action Agency Executive Directors Association and the National Association for Community Development to act as their fund raising unit for influencing Federal legislative and executive policy regarding community action agencies, and promoting national awareness of the services performed by the agencies and the need for continuation of such services. Its activities are administered by 14 trustees consisting of the 6 elected officers of the Directors' Association, 5 officers of the Association for Community Development, and 3 independent trustees elected by these officers.

Funding sources

CSA instructions place restrictions on the use of grant funds for lobbying activities and do not allow the funds to be used for influencing legislation. Therefore, the Trust Fund relies principally on voluntary contributions from community action agency employees for its support. General membership contributions are \$13 annually and are usually made through weekly payroll deductions. In addition, Trust Fund records in September 1976 indicated that both the Directors' Association and the Association for Community Development voted that each community action agency executive director should make a \$50 personal contribution to the fund. Community action agency employees' dues were generally consolidated into one contribution check and therefore the extent to which executive directors participated could not be determined. The Fund's September 1976 income report, however, indicated that eight executive directors had made personal contributions. The Trust Fund's bank records show receipts of about \$28,270 for 1976 and \$15,974 for the first 3 months of 1977.

The Trust Fund's bank records also showed that large contributions were received from several state community action

associations. Records at four of these state associations were reviewed to determine if any part of the contribution consisted of Federal grant funds. For three of the associations it did not appear that grant funds were used in the contributions.

At the fourth state association reviewed, the Trust Fund contribution was financed from annual membership dues and net proceeds from quarterly professional meetings sponsored by the state association. These meetings were in turn financed by a registration fee of \$10 per person. State association records indicate that community action agencies probably paid for the members' registration fee out of grant funds. Therefore, CSA grant funds were probably involved in the contribution.

Adequacy of financial records

During its first official board meeting in July 1976, the Trust Fund's counsel stressed the importance of keeping extremely accurate and complete financial records. However, Trust Fund officials were unable to locate almost all financial records subpoenaed by the Committee. In their attempts to obtain financial records, the Fund's officials and attorney were unsuccessful in locating the former national coordinator who had knowledge of existing records. Records provided pursuant to the subpoena consisted mainly of copies of receipts, unsupported and unaudited financial reports, and a listing of employee annual salaries. Almost all disbursement information had to be obtained directly from the Fund's bank.

Disbursements

Through April 22, 1977, Trust Fund bank records show total disbursements of \$40,506 from its operating account and \$1,355 from its petty cash account. The largest disbursements were for salaries, legal expenses, travel, office equipment, mailings, and payments to the Association for Community Development, and Communities in Action Together, a registered lobbying organization under contract with the Fund to conduct its lobbying activities.

Trust Fund salary expenses for five employees amounted to \$16,747, or about 41 percent of its total expenditures. Analysis of these costs suggests that the Fund paid its employees gross wages and did not withhold either Federal, State, or local income taxes. Bank records contained no records of any payments by the Trust Fund to the Internal Revenue Service or the District of Columbia government. Also, annualized salary payments to employees matched or exceeded the salary levels on the listing provided by the Fund.

APPENDIX I

APPENDIX I

In December 1976, the Trust Fund estimated that its 1977 operating budget would be \$28,825, excluding lobbying expenses. Its estimated salary expense for two employees was \$19,200 or 67 percent of total expenditures. However, the Trust Fund had three individuals employed as of July 1977 at annualized salaries of \$43,000, including the national coordinator's salary of \$20,000.

The Fund's budget for 1977 provided for travel expenditures of \$2,500, but actual travel records were not furnished in compliance with the subpoena. The Fund's bank records showed \$2,380 marked as travel expenses for July 1976 through April 1977--about 6 percent of total expenditures. One check for \$251.48 marked travel expenses was made out to the president, another \$125 check marked as travel expense to meet with the Fund's president was made out to "cash," and a third check of \$246.20 was written to the president's community action agency for meeting expenses. One additional check for \$50 was made out to "cash" and marked as per diem expense for the former national coordinator.

Although the bylaws state that all withdrawals shall be signed by the treasurer and the chairperson or his designee, Trust Fund bank records contained numerous examples of checks signed only by the Fund's former national coordinator. During the period October 1976 through February 1977 the former coordinator, without obtaining cosignatures of other Fund officials, wrote 29 checks from the Fund's operating account totaling \$7,220 or about 18 percent of total expenditures from that account. Five of these checks amounting to \$2,683 were for her own salary and two of the five were made out to "cash."

During October and November 1976, the coordinator wrote three checks to herself for \$267 each. One of these checks was annotated as consultant fees for 2 days service; the other two were not annotated. During December 1976 through February 1977, the coordinator wrote seven other checks amounting to \$1,650 to "cash"; four of these amounting to \$950 were endorsed by her. The endorsement on the other three checks could not be determined. One additional check for \$200 was made to "cash" and noted as a loan to be replaced thru payroll deductions.

Although it is possible that some of these checks were meant as compensation for the coordinator's employment, the actual purpose and use of the checks could not be determined. It was also noted that during her last 2 months of employment, January and February 1977, the former coordinator received seven salary checks totaling \$3,742. These checks were written in the amount of her usual biweekly salary and three were signed only by

her. As previously stated, Trust Fund officials and its attorney could not locate the former national coordinator to obtain information on the Fund's financial activities.

The Trust Fund made payments of \$900 and \$2,000 to Communities in Action Together. These payments were made in November 1976 and January 1977 respectively. The first check may be the fulfillment of a resolution adopted by the Fund at its first board meeting wherein the Fund would assume all pre-existing obligations of the Action Committee for Community Services, a Committee formed by the Directors' Association, the Association for Community Development, and another organization, Coalition for the War on Poverty, to fight the attempted dismantlement of the Office of Economic Opportunity. The second check is apparently partial payment of a \$5,000 contract between the Trust Fund and Communities in Action Together dated January 29, 1977. Under this contract, Communities in Action Together was to prepare a publication aid in the dissemination of information of any and all Federal Legislative and/or Executive matters relating to community action programs.

The Trust Fund also made payments totaling \$4,000 to the Association for Community Development. According to the Fund's board minutes, the Association had loaned Communities in Action Together \$5,000, and at least \$2,500 of the Fund's payments to the Association were in repayment of this loan. Association for Community Development records indicated, however, that both it and the Directors' Association each loaned the Trust Fund \$5,000 as an initial effort to unify the associations supporting community action. The Association for Community Development's bank records show a \$5,000 loan to the Fund. The Association's check was first endorsed by the Trust Fund and then by Communities in Action Together. The records of Communities in Action Together show a \$5,000 receipt from the Association for Community Development. Without pertinent records, the actual circumstances of this loan could not be determined.

While its stated purpose is in part to lobby or influence legislation, it appears that the Fund, in addition to its arrangements with Communities in Action Together, primarily seeks to further its objectives through distribution of "Action Alerts." Six Action Alerts were provided in response to the subpoena. The alerts averaged about 3 pages each and contain information on community programs and pertinent legislation. Recipients of these alerts are urged to support legislation favorable to community action programs and are provided instructions on how to do so.

NATIONAL CAA LEGISLATIVE FORUM

The National Legislative Forum is an organization with the stated objectives of developing antipoverty legislation and suggesting strategies to obtain its passage. Participation in the Forum is open to all who wish to participate, but voting membership is limited to about 80 individuals comprised of state community action association presidents, regional representatives to the Directors' Association board, regional Forum coordinators, and regional Association for Community Development representatives. Officers, consisting of a chairman and vice-chairman, are to be elected annually by the voting members. However, as noted below, the chairman is currently appointed by the president of the Directors' Association.

Financial activities

Total receipts by the Forum during the 18-month period ending May 15, 1977, were about \$4,800. The receipts consisted of registration fees for meetings of about \$3,400 and loan repayments received from Communities in Action Together--a lobbying organization--of about \$1,400.

Disbursements during the period totalled about \$2,300, leaving a cash balance for the Forum at May 15, 1977, of about \$2,500. Disbursements included the loans of about \$1,400 to Communities in Action Together, subsequently repaid during the period; hotel expenses incurred in connection with Forum meetings of almost \$600; and clerical and legal expenses of about \$130. At the end of the period, the Forum had outstanding obligations of about \$9,000 to a community action agency for expenses incurred by the agency's executive director in his capacity as Forum chairman.

Basic financial records of the Forum, requested in the Committee's subpoena for the period prior to November 1975 could not be located. As a result, it was necessary for the president of the Directors' Association, who was chairman of the Forum during that period, to obtain copies of checking account transactions from the bank handling the Forum's account at that time. He had also not furnished the records to the succeeding chairman in 1975 despite his successor's request.

The documents provided by the bank show total deposits to the Forum's checking account of about \$11,400 during the period from May 1974 to December 1975. Because sufficient documentation was not furnished, the sources of the receipts could not be determined. However, records furnished pertaining to a September 1975 Forum meeting indicate that in most instances

participants' registration fees were billed to local community action agencies.

Checks drawn on the account during the period totalled about \$11,100. The disbursements were primarily to hotels--about \$2,000; political dinner committee--\$2,000; the treasurer of the Forum--about \$1,900; and Communities in Action Together (the national lobbying organization)--about \$3,300.

CSA instructions place restrictions on the use of grant funds for lobbying activities and do not allow such funds to be used for influencing legislation. Since it appears that registration fees for at least one meeting were billed to local community action agencies, which may have been the customary practice, and because disbursements were made by the Forum to Communities in Action Together, CSA grant funds may have been used to support lobbying activities.

Relationships with other associations

The stated objectives of the Forum were adopted by resolution at the 1976 Directors' Association annual conference. The resolution specified that proposed legislation and strategies to obtain passage would be developed by the Forum within broad parameters specified by the boards of directors of the Directors' Association and the Association for Community Development. It also stated that the officers were to be elected annually by the voting members of the Forum. However, at a subsequent meeting the Directors' Association board adopted a resolution which modified the previous resolution by specifying that the Forum be recognized as the standing legislative committee of the Directors' Association and that the voting membership and chairperson of the Forum be appointed by the Association president.

In a letter to community action agency directors in August 1976, the chairman of the Forum noted he had been told the Forum was a subcommittee of the Directors' Association, the Association for Community Development, and the Trust Fund, and stated he would resign if the Forum continued to be directed by and accountable to those organizations. He indicated his belief that the Forum is useless unless it is permitted to act as the legislative arm of the community action program, rather than as a subcommittee of the national associations.

COMMUNITIES IN ACTION TOGETHER

Communities in Action Together was established in March 1973 by the Directors' Association to promote the

Forum's legislative policies and to function as an organizing, advocacy, information and lobbying arm for community action agencies. Since the organization engages in lobbying activities, CSA instructions prohibiting support from grant funds apply.

During 1976, the national associations shifted emphasis on lobbying activities from Communities in Action Together to the National Community Action Trust Fund. Although the financial records of Communities in Action Together show receipts of about \$2,500 from January through July 31, 1976, its bank balance as of March 31, 1977 was less than \$800. Minutes of an April 11, 1977, board of directors conference call disclosed a zero bank balance as of April 8, 1977.

In addition, the organization's financial records prior to April 1976 were unavailable because they were in the possession of the Department of Justice.

Because of these circumstances, a detailed analysis of the financial activities and records of Communities in Action Together was not prepared. However, certain transfers of moneys from other organizations, including the Forum and the Association for Community Development, are discussed elsewhere in this report because the moneys were apparently derived from CSA grant funds.

NATIONAL CENTER FOR COMMUNITY ACTION

The National Center for Community Action--a private, nonprofit corporation located in Washington, D.C.--was established in January 1974 by the Directors' Association to provide an ongoing and comprehensive program of research, information, training, technical, and other supportive services to community action agencies, with the assistance of CSA funds.

The Center is governed by a 27-member board of directors. Twenty members of the board are selected by state and regional community action associations and include 1 community action agency executive director from each of the 10 CSA regions, and 10 additional persons from the regions who are not community action agency directors. The remaining seven members of the Board include five from other Washington, D.C.-based organizations; the president of the Directors' Association; and the immediate past chairman of the Center's Board.

Until 1975, when the bylaws were changed, the Directors' Association president appointed 10 persons to the Board.

Memoers of the Board are not salaried, but can be compensated for unusual and exceptional services rendered. The Board appoints an Executive Director who manages the Center's activities.

The Center has three operating departments which carry out its activities: Research and Information; Field Services; and Network Services. The Research and Information department monitors, collects, and disseminates information on Federal legislation of interest to the organization's clients. The Field Services department provides training to community action agencies. The Network Services department collects, compiles, and disseminates information on programs in operation at the community action agencies.

The Center's first annual report, covering the period April 1, 1974 through March 31, 1975, showed a total of \$158,573 expended for personnel, consultants, office expenses, and travel. The expenses were funded from support received from the following community action agencies funded by CSA:

South Middlesex Opportunity Council Framingham, Massachusetts	\$131,785
Community Progress Council York, Pennsylvania	<u>91,300</u>
Total	<u>\$223,085</u>

In April 1975, CSA began funding the Center as a Federal grantee. Total Federal funding from April 1975 to March 1977 was \$1,165,650. In addition, \$57,000 was generated from the sale of publications and training programs.

Center expenditures through March 1977 included approximately 12 percent for travel, 4 percent for consultants, 34 percent for consumable items such as rent and utilities, and 50 percent for salaries. The Center's 1977 budget includes salary provision for 19 employees totaling \$311,000 of which \$33,075 is for its executive director. Review work was directed to the interrelationship of the Center with non-grantee organizations.

Relationship with other organizations

As a nonprofit corporation, the Internal Revenue Service exempts the Center from taxation. This exemption may be revoked if the Center does not comply with certain conditions which include that it not engage in lobbying or use its funds in substantial part to influence legislation.

On December 19, 1975, the chairman of the Center's board wrote to the Legislative Forum concerning the involvement of the Center in Forum activities. The chairman indicated that the Center did not have any official relationships with any national community action mechanism other than its funding relationship with CSA headquarters. He further stated that the Center recognizes the importance and necessity of working as closely as possible with the other organizations, but feared any misunderstanding of its relationship to other functional lobbying groups might jeopardize its tax exemption, postal service mailing permit, and even its grant which contained a clearly worded special condition prohibiting lobbying activities.

In January 1976, the president of the Directors' Association introduced a motion at the Center's quarterly board meeting recommending that the Center make a grant to the Directors' Association of \$50,000 for administrative services. The motion was passed and in February 1976 the Center approved the funding to provide the Directors' Association with office space and equipment in the Center's office, separate telephone services, publication of the Directors' Association newsletter, maintenance of its files, handling of all its correspondence, travel budget and per diem allowances for the Association, central accounting, and bookkeeping and secretarial services. In addition, the Center was to provide the Directors' Association with two full-time staff members.

On February 12, 1976, CSA notified the Center that the terms of the Federal grant to the Center did not provide for transferring funds to another agency. CSA instructed the Center to submit a formal request to CSA for approval of this transaction.

On March 23, 1976, the Center formally requested CSA approval of the assistance to be provided to the Directors' Association, asking that such approval be retroactive to January 1976.

CSA responded to the Center on March 26, 1976, that its application could not be considered without a statement of work and that funding could not be retroactive to January 1976. CSA specified that the Center should provide rationale for how the Directors' Association would assist in achieving the Center's objective, increasing the Center's operating efficiency, and benefiting the population served by the Center.

At the Center's May 1976, board of directors meeting, concern was raised as to why the Directors' Association request had not been funded. The Board agreed that it should

not wait for approval from CSA and unanimously voted to implement its previous decision to provide \$50,000 for the Association including office space and staff at the Center's headquarters.

In early June 1976 the Center resubmitted its funding proposal with the inclusion of a new Center organizational component to be known as the Community Action Agency Liaison Services. The proposed purpose of this new component was to provide timely information to local community action agencies about the activities of state, regional, and national community action organizations and related groups. The major product of the new component was to be a monthly Community Action Agency Newsletter.

On June 14, 1976, CSA notified the Center by letter that no CSA funds were approved for use in support of the Directors' Association. CSA told the Center that its grant renewal would be delayed because, among other things, the Center lacked an activity plan for the year, and questions still existed concerning the Center's relationship with the Directors' Association. CSA specified that, regardless of the close relationship between the executive directors and CSA, funding support of their professional association through the Center's grant was questionable.

On June 17, 1976, the chairman of the Center's board responded stating that his revised proposal resolved any concerns regarding internal administrative services being furnished by the Center to the Directors' Association, and CSA subsequently approved one staff person in the Center's budget for the liaison organizational component.

In a November 1976 Center board meeting an earlier motion by the Center's executive director to sublease Center office space in Washington to the Directors' Association, the Trust Fund and the Association for Community Development was brought up for reconsideration. The Center director noted that the board had already passed a motion to support the Directors' Association staffing proposal and that this had been accomplished by changing the job description and title of the present incumbent to liaison officer. The Center board then unanimously adopted a motion to sublease office space to the Trust Fund and the Association for Community Development. In addition, the president of the Director's Association suggested that a motion be introduced to invite the president of the Association for Community Development to become a member of the Center's board of directors. This motion was introduced by another individual and was unanimously approved by the board.

In January 1977, the Center offered to lease office space to the Trust Fund for \$250 per month. This offer was addressed to the president of the Directors' Association who also is president of the Trust Fund. Although the Center apparently agreed to sublease office space to the Trust Fund for \$250 per month, there was no evidence provided by the Center that any rental payments had been received.

During a site visit on February 24, 1977, a CSA project manager noted that the Center's liaison staff person was located in a new Center section called the Directors Association Section, and that the person had a secretary which was not approved in the budget. In conversation with the liaison officer, the CSA project manager determined that their publication was not a Community Action Agency Newsletter, but the newsletter of the Directors' Association entitled "The CAP Director" which had previously been published by the Directors' Association. The Association's office and staff had been operating at the Center since September 1976.

On March 2, 1977, CSA advised the chairman of the Center's board that:

"We have become aware of improprieties in the operations of the Center's activities * * * setting up a Secretariat for NCAaeda [Directors' Association]. As you are aware, a request for grant amendment to the previous grant was submitted to CSA to allow the Center to provide for services to NCAaeda. This amendment was never approved. Also the matter was withdrawn from consideration by letter received from the Chairman of the Board dated June 17, 1976."

The Center's board considered the memo at a March 4, 1977, meeting but took no action on the matter. The Center's executive director announced to the board that the Trust Fund had moved into the Center's quarters and a preliminary agreement had been reached on the accommodations.

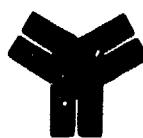
In response to questions raised on the relationships between the Center and the Directors' Association, the president of the Directors' Association wrote to the Director of CSA on March 14, 1977, requesting a meeting on the issue. The letter objected to a ruling by CSA's general counsel which identified the Directors' Association as a lobbying organization ineligible for CSA funding. The letter emphasized potential benefits of

colocating the Directors' Association office with the Center, but did not address the Center support being furnished to the Trust Fund.

On August 8, 1977, the executive director of the Center issued a letter which ordered the Trust Fund to vacate its present office space within the Center within 30 days. In addition, the Center billed the Trust Fund for debts owed to the Center of \$3,878. This amount includes: \$1,000 for unpaid rent for the period March through June 1977; postage \$1,098; telephone \$744; messenger services \$27; printing costs \$354; office supplies \$95; and construction costs for office space \$560.

As of September 14, 1977, the Center was still providing staff for the Directors' Association. In addition, the Trust Fund and the Directors' Association were still occupying office space at the Center. The CSA project manager said that since the Center had not discontinued funding staff supporting the Directors' Association, related Center expenses would be disallowed by CSA. Although CSA took no other specific actions against the Center for violating a CSA directive, the project manager said the new grant will contain a specific prohibition against the Center's providing any assistance to other organizations.

Community Services Administration



SEP 14 1977

TO: Community Action Agency Executive Directors
Community Action Agency Board Chairmen

The time has come for the Community Services Administration (CSA) to assert itself with regard to the national community action agency organizations. While these organizations are not directly supported by CSA grant funds, their primary support comes indirectly from CSA, through membership dues and registration fees paid by CSA supported members, and through CSA funded travel to organization functions. CSA fully recognizes the value of national association, the need for member agencies to confer, and the need to develop a unified national voice on issues of importance to the poor. However, if CSA is to continue as a primary funding source of such activity, it must take responsibility for insuring fiscal and programmatic integrity. Under current structuring, these organizations, not being grantees, are not subject to CSA's safeguards regarding travel, consulting contracts, audit, conflict of interest, and other requirements. CSA has permitted the anomaly of CSA funded organizations being free of CSA regulations.

This freedom from CSA oversight might be tolerable if the quality of leadership in the associations was of such unquestionable ability and integrity as to assure proper use of CSA funds. Unfortunately, such leadership is not in evidence. Key officers in both the National Community Action Agencies Executive Directors Association (NCAAEDA) and the National Association for Community Development (NACD) have shown leadership deficiencies in administering their own local community action agencies which make continued CSA support of such leadership on the national level inadvisable.

-2-

CSA has received varied allegations concerning the actions of these leaders in their administration of the national organizations. ... In the current anomalous structure, CSA cannot freely investigate these allegations. However, CSA can and has investigated the performance of these leaders in the administration of their own agencies. Among the findings are the following:

- (1) As a CAA executive director, one officer spent \$19,000 of local CAA funds for NACD and NCAAEADA travel in one year.
- (2) A review of his local CAA audits from 1967 through 1974 indicates consistently inadequate accounting practices.
- (3) He fragmented renovation bills to circumvent CSA's requirement that all grantee expenditures in excess of \$500 receive prior CSA approval.
- (4) He permitted CSA funds to be used to pay for a large color television set and an expensive stereo set for which there was no apparent program purpose.
- (5) He permitted CSA funds to be used to purchase \$210 worth of football and basketball tickets. He admitted that there was no programmatic purpose for these purchases.
- (6) He spent approximately \$900 of poverty funds to repair his personal residence. He later reimbursed the agency.
- (7) His CAA paid a \$1,371 annual premium on his personal life insurance policy and \$82 on another policy.

-3-

- (8) He took a trip at his agency's expense to Hawaii to speak at a Region IX CAA Directors meeting which had been cancelled before he left. Claiming he was never informed, he stayed in Hawaii six days.
- (9) By letter of August 15, 1977, CSA's Regional Office disallowed \$59,000 of his agency's travel costs because of inadequate documentation.

An executive officer in the other national community organization has just resigned his position as a CAA director, leaving it in a condition that required CSA to summarily suspend further use of CSA funds. However, he has just been salaried by the national association of which he is president at a level in excess of \$40,000. This person, while a community action agency director was responsible for the following:

- (1) His agency paid for an expensive stereo system for his agency-leased automobile.
- (2) In May 1974, he received \$5,245 for "unused leave". He was required to repay this but he again improperly paid himself \$10,300 for "unused leave" upon his recent resignation.
- (3) He has consistently purchased first class air fare when on community action agency business.
- (4) He expended CSA funds in the purchase of \$10,000 worth of unneeded ball point pens.
- (5) His CAA paid for life membership for him and his wife in the United Air Lines Red Carpet Club.

-4-

- (6) His CAA spent funds to repair homes of persons ineligible for services.
- (7) His most recent audit had \$166,000 in questioned costs including \$32,000 related to NACD travel.
- (8) His CAA allegedly spent \$3,500 to secure 700 memberships in and control of NACD.
- (9) Twenty-two of his CAA employees attended a community action convention in Washington, at a travel expense of \$10,500.

It is hardly appropriate for CSA to continue support of such leadership, particularly where the organizations in question are not subject to CSA regulation. Too often have the scandals of the few hurt the efforts of the many. We are aware that there is movement toward reform from within these organizations. However, CSA cannot afford to sit on the sidelines while reform from within succeeds or fails.

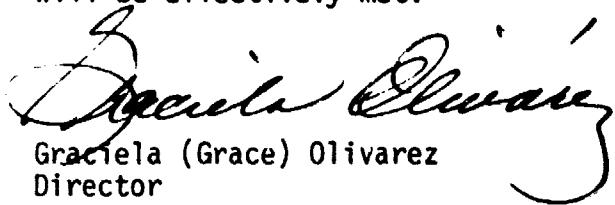
Until the leadership of these agencies changes, and until the appropriate regulatory and audit safeguards are in place, we must declare a moratorium on the expenditure of CSA funds in support of these organizations. The attached regulations, published in the Federal Register, will prohibit further expenditure of CSA funds for membership dues in national community action organizations and for out-of-state travel without prior CSA approval. A formal interpretation of CSA Instruction 6907-1a prohibits further payroll deductions for voluntary private contributions to political organizations such as the National Community Action Trust Fund. In some instances such contributions have allegedly been less than voluntary.

The issuance of these regulations should not be construed as a lack of CSA support, either financial or philosophical, for independent and effective national association by community action agencies. We do not intend to control

-5-

or dominate such association. However, we do intend to insure that where CSA funds support community action association, such funds are not misused, that bank accounts are open to inspection, that annual audits are performed, that democratic procedures are followed, and that CSA travel, consulting and other appropriate regulations are religiously followed.

We look forward to supporting an effective, independent national voice for community action agencies and are confident that by working together, we can reach a resolution in which CSA's responsibilities and your needs will be effectively met.



Graciela (Grace) Olivarez
Director

Attachments

cc: Regional Directors
Regional Counsels
NACD
NCAAEDA

Title 45 - Public Welfare**CHAPTER X - COMMUNITY SERVICES ADMINISTRATION****PART 1068 - GRANTEE FINANCIAL MANAGEMENT****Subpart - Grantee Payment of Professional Dues**

AGENCY: Community Services Administration

ACTION: Proposed Rule

SUMMARY: This rule codifies a Community Services Administration policy on payment of dues to professional associations with grant funds, which was previously unpublished in the Federal Register, and changes it to require that CSA approve all professional organizations which receive such dues out of grant funds. This change is to control payments in excessive amounts and for purposes which would be contrary to CSA regulations if carried out directly by CSA grantees. This rule is intended to give CSA the authority to determine which professional organizations may benefit from such indirect CSA funding.

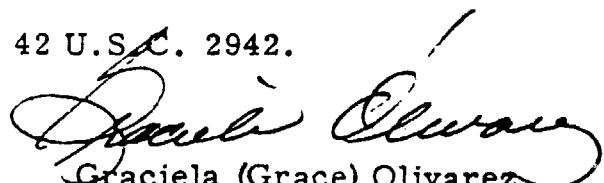
DATES: Comments on this proposed rule must be received on or before October 20, 1977.

ADDRESSES: Comments should be addressed to Ms. Faye Rattner, Chief, Policy Development & Review Division, Community Services Administration, Office of Community Action, 1200 19th Street, N.W., Washington, D.C. 20506.

FOR FURTHER INFORMATION CONTACT: Faye Rattner, phone, 202-254-5670.

SUPPLEMENTARY INFORMATION: Previous to September 19, 1972 when Section 623 of the Economic Opportunity Act of 1964, as amended, was enacted, CSA (then OEO) was not required to publish its regulations in the Federal Register. OEO Instruction 6710-02 was promulgated in 1971 and includes a provision governing professional dues which is modified by this rule.

AUTHORITY: Sec. 602, 78 Stat 530, 42 U.S.C. 2942.



Graciela (Grace) Olivarez
Director

45 CFR 1068 is proposed to be amended as follows, effective November 5, 1977:

Sec.

1068.30-1 Applicability.

1068.30-2 Restrictions on charging professional dues to grant funds.

1068.30-1 Applicability.

This subpart is applicable to all grantees receiving financial assistance from the Community Services Administration.

1068.30-2 Restrictions on charging professional dues to grant funds.

Professional dues that may be charged to grant funds (including non-Federal share) are limited to a single membership for the grantee in any appropriate professional organizations; memberships

may not be purchased for any individual or delegate agency. Such proposed expenditures of funds for professional memberships must be included as an attachment to the "other cost category" on the budget form in an application for funding or refunding. The attachment must identify the name of the professional organization, the amount of the proposed membership and include a brief description of the purpose of that organization.

Title 45 - Public Welfare**CHAPTER X - COMMUNITY SERVICES ADMINISTRATION****PART 1069 - GRANTEE PERSONNEL MANAGEMENT****Subpart - Prohibition of Salary Checkoff for Political Activities**

AGENCY: Community Services Administration.

ACTION: Final rule - Interpretative rule.

SUMMARY: This is an interpretation of the CSA regulation (45 CFR 1069.8-5(e)) prohibiting payroll deductions from grantee employees' salaries which extends this prohibition to national groups involved in political activity. The National Community Action Trust Fund is presently receiving contributions through payroll deductions from CSA grantees' employees' salaries on the basis of a letter from former CSA Director Martinez allowing this practice. This rule will eliminate the National Community Action Trust Fund or any similar organization from receiving these contributions through such payroll deductions.

EFFECTIVE DATE: This interpretation shall take effect November 5, 1977.

FOR FURTHER INFORMATION CONTACT: John C. Meyer, Office of General Counsel, Community Services Administration, 1200 19th Street, N.W., Washington, D.C. 20506; phone, 202-254-5690.

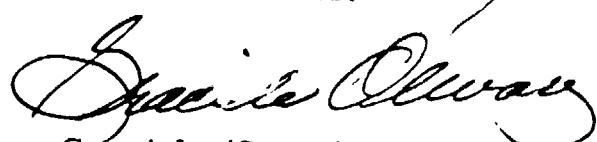
SUPPLEMENTARY INFORMATION: Shortly after §1069.8-5(e) was issued, CSA received two letters dated May 20 and June 2, 1976 from the National Community Action Agency Executive Directors' Association

expressing concern that payroll deduction contributions to the National Community Action Trust Fund would be considered in violation of this regulation. By letter of June 23, 1976 then Director Martinez assured them that contributions to the Trust Fund were not intended to be covered. Upon reconsideration of this question, CSA finds that the language of the regulation does clearly cover the Trust Fund and similar organizations. As CSA does not wish as a matter of policy to encourage even the indirect channelling of CSA grant funds to the Trust Fund or other such organizations, this interpretation is reversed.

Interpretative regulations do not require public comment and are normally effective immediately; however, in this instance, CSA is delaying the effective date until November 5 to give grantees time to adjust their systems to the reinterpretation of this regulation by terminating these payroll deductions.

Therefore, the following interpretation of 45 Code of Federal Regulations 1069.8-5(e) is adopted; the prohibition in that paragraph, "no contribution may be collected for any political activity through any deduction from the paycheck of any grantee, if that employee is paid with CSA funds", is hereby interpreted to prohibit the use of such deductions for voluntary contributions to the National Community Action Trust Fund or any other national entity which engages in such political activities.

AUTHORITY: Sec. 602, 78 Stat 530, 42 U.S.C. 2942.



Graciela (Grace) Olivarez
Director

Title 45 - Public Welfare

CHAPTER X - COMMUNITY SERVICES ADMINISTRATION

PART 1069 - GRANTEE PERSONNEL MANAGEMENT

Subpart - Restrictions on Charging Out-of-State Grant Funds
(CSA Instruction 6910-1a)**AGENCY:** Community Services Administration**ACTION:** Proposed Rule

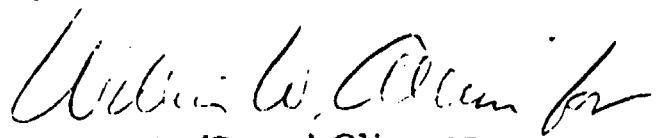
SUMMARY: This proposed rule would replace the present CSA requirement for prior, written CSA approval of grantee use of grant funds for travel outside of the grantee's community with a requirement for such approval only for out-of-State travel. It would eliminate exceptions to the requirement for prior CSA approval for travel to meetings of professional associations whose efforts are closely related to the poverty program and travel to interview prospective employees or procure services, supplies, or equipment. Thus grantee travel within a State will not require prior, written CSA approval and all grantee travel out-of-State does require such approval, except for travel in response to an invitation from CSA.

DATES: Comments on this proposed rule must be received on or before October 20, 1977.

It is proposed to make this rule effective November 5, 1977.

ADDRESSES: Comments should be addressed to Ms. Faye Rattner, Chief, Policy Development and Review Division, Community Services Administration, 1200 19th Street, N.W. Washington, D.C. 20506.

AUTHORITY: Sec. 602, 78 Stat 530, 42 U.S.C. 2942.



Graciela (Grace) Olivarez
Director

Therefore, it is proposed to amend 45 CFR 1069.3-5 as follows,
effective November 5, 1977:

**§1069.3-5 Restrictions on charging out-of-State travel costs to
grant funds.**

(a) Grantees may use CSA grant funds for out-of-State travel costs incurred by grantee and delegate agency employees, consultants, and members of governing and administering boards without obtaining prior CSA approval, if the travel meets the conditions outlined below and meets the geographical limitations of §1069.3-6:

- 1) Travel in response to a specific invitation from CSA to attend a conference or meeting for the purpose of furthering grantee activity.
- 2) For the District of Columbia only, if the travel is within a radius of 50 miles of the grantee's or delegate agency's headquarters.

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