



SPECIAL NOTICE

Release of this report may not be in the best interests of the Government for reasons stated herein

094-2

Financial Administration Of Certain Activities Of The Oakland Economic Development Council, Inc., And The Berkeley Neighborhood Youth Corps

B 130515

Office of Economic Opportunity
Department of Labor
Department of Health, Education,
and Welfare

*BY THE COMPTROLLER GENERAL
OF THE UNITED STATES*

~~7/22/72~~
~~7/1/65~~

094052

APRIL 19, 1972



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON DC 20548

1-957
2-D 1344
3-D 4888
4-37

B-130515

Dear Mr Veysey

COPIES DOCUMENT AVAILABLE

4
2
3 This is our report on our review of the financial administration of certain activities of the Oakland Economic Development Council, Inc., the former Community Action Agency in Oakland, California, and the Berkeley Neighborhood Youth Corps, Berkeley, California. D 4888

OS tkr Our review was made pursuant to a request of former Senator George Murphy, who later requested that the report be sent to you. The Office of Economic Opportunity, the Departments of Labor and of Health, Education, and Welfare, the Community Action Agency, the Berkeley Neighborhood Youth Corps, and other parties mentioned in this report have not been given an opportunity to examine and formally comment on this report.

4 On March 16, 1971, we submitted information about certain expenditures made by two Community Action Agency delegate agencies-- the Group to Industrialize the Ghetto and the GIG Foundation--to the Department of Justice for its consideration of possible violations of Federal criminal law. Nothing contained in this report on these delegate agencies should be construed as a determination that there has or has not been a violation of Federal criminal law, and care should be exercised in the use of information contained in this report on these delegate agencies because disclosure of the contents conceivably could prejudice the Government's interest 37

As previously agreed with you, we are transmitting copies of this report to Senator Alan Cranston, Congressman Ronald V Dellums, the Acting Attorney General, the Director, Office of Economic Opportunity, the Secretary of Labor, and the Secretary of Health, Education, and Welfare

We plan to make no further distribution of this report unless copies are specifically requested, and then we shall make distribution

B-130515

only after your agreement has been obtained or public announcement has been made by you concerning the contents of the report.

Sincerely yours,

A handwritten signature in cursive script that reads "James B. Axtell". The signature is written in black ink and is positioned above the printed name and title.

Comptroller General
of the United States

u

The Honorable Victor V Veysey
House of Representatives

APPENDIX

I	Letter dated September 19, 1970, from Senator George Murphy to the Comptroller General	51
II	Letter dated December 17, 1970, from Senator George Murphy to the Comptroller General	52

ABBREVIATIONS

CEP	Concentrated Employment Program
CPA	certified public accountant
GAO	General Accounting Office
GSA	General Services Administration
HEW	Department of Health, Education, and Welfare
NYC	Neighborhood Youth Corps
OEDCI	Oakland Economic Development Council, Inc.
OEO	Office of Economic Opportunity
OIC	Opportunities Industrialization Center

C o n t e n t s

	<u>Page</u>
DIGEST	1
CHAPTER	
1 INTRODUCTION	5
2 FINANCIAL ADMINISTRATION OF FEDERAL FUNDS BY THE OAKLAND ECONOMIC DEVELOPMENT COUNCIL, INC., FOR CENTRALLY ADMINISTERED PROGRAMS	10
Personnel matters	11
Employee advances and loans	12
Procurement practices	14
Accountable property	18
Non-Federal contributions	19
OEO and CPA audits of OEO funds provided to OEDCI	22
Neighborhood Youth Corps stipend payments	27
3 FINANCIAL ADMINISTRATION OF FEDERAL FUNDS BY THE GROUP TO INDUSTRIALIZE THE GHETTO AND THE GIG FOUNDATION	33
Inadequate accounting records, support- ing documentation, and questionable expenditures	36
Persons placed in jobs were not en- rolled in the program	42
4 FINANCIAL ADMINISTRATION OF FEDERAL FUNDS BY THE OAKLAND OPPORTUNITIES INDUSTRIALIZA- TION CENTER	44
Questionable expenditures of Federal funds	44
Controls over nonexpendable property	45
Non-Federal contributions	46
5 CONCLUSIONS ON THE OAKLAND PROGRAM	47
6 FINANCIAL ADMINISTRATION OF FEDERAL FUNDS BY THE BERKELEY NEIGHBORHOOD YOUTH CORPS	48

SPECIAL NOTICE

Release of this report may not be in the best interests of the Government for reasons stated herein

COMPTROLLER GENERAL'S REPORT TO
THE HONORABLE VICTOR V VEYSEY
HOUSE OF REPRESENTATIVES

FINANCIAL ADMINISTRATION OF CERTAIN
ACTIVITIES OF THE OAKLAND ECONOMIC
DEVELOPMENT COUNCIL, INC , AND THE
BERKELEY NEIGHBORHOOD YOUTH CORPS
Office of Economic Opportunity
Department of Labor
Department of Health, Education,
and Welfare B-130515

D I G E S T

WHY THE EXAMINATION WAS MADE

Former Senator George Murphy of California requested the General Accounting Office (GAO) to examine into the financial administration of certain anti-poverty programs conducted by the Oakland Economic Development Council, Inc , the former Community Action Agency in Oakland, California, and the Berkeley Neighborhood Youth Corps, Berkeley, California. At his request, GAO is sending its report to Congressman Victor V Veysey.

Background

During calendar years 1969 and 1970, the Oakland Economic Development Council reported spending Federal funds of about \$14 million provided by the Office of Economic Opportunity (OEO), the Department of Labor, and the Department of Health, Education, and Welfare (HEW). The council sponsored such activities as neighborhood service centers, parent-child centers, Project Head Start, and the Neighborhood Youth Corps and other manpower programs.

The council was not funded during 1971. In May 1971 the city of Oakland took over administration of Oakland's Community Action Program.

The city of Berkeley conducts the Berkeley Neighborhood Youth Corps program. Labor provided funds of about \$755,000 for operation of the program for the period December 1967 through July 16, 1971, and \$386,130 for the period July 1971 through July 1972.

GAO did not evaluate how well the objectives of the programs had been achieved. OEO, Labor, HEW, and the other parties mentioned have not formally examined or commented on this report.

Referral to the Department of Justice

On March 16, 1971, GAO submitted information about certain expenditures made by two delegate agencies of the council--the Group to Industrialize the Ghetto and the GIG Foundation--to the Department of Justice for its consideration of possible violations of Federal criminal law.

Nothing contained in this report on these agencies should be construed as a determination that there has or has not been a violation of Federal

APRIL 19, 1972

criminal law Care should be exercised in the use of information in this report on those agencies because disclosure of the contents conceivably could prejudice the Government's interest (See p 33)

FINDINGS AND CONCLUSIONS

Oakland Economic Development Council

Financial administration of antipoverty programs by the council and three of its 21 delegate agencies deviated in many respects from the requirements of OEO and Labor Many of the deviations noted had been identified during audits by OEO, Labor, and certified public accountants

GAO's review of programs administered by the council showed, among other things, that

- Of the 50 employee time and attendance reports examined, 35 had not been signed by the employees and/or supervisors (See p 11)
- Starting salaries and salary increases granted some employees had exceeded OEO and Labor limitations (See p 11)
- Salary advances or loans had been granted to 31 percent of the staff, contrary to OEO guidelines (See p 12)
- Some purchases of supplies, equipment, and services had not been adequately documented or had been made for unauthorized purposes In some instances the purchase or rental costs had been excessive (See p 14)
- Documentation was not available to support non-Federal contributions Some of the contributions had been based on services which had not been provided (See p 19)
- OEO auditors and certified public accountants had questioned expenditures of \$263,478 by the council and its agencies for calendar years 1968 through 1970 As of September 1971 OEO had requested repayment of \$140,800 of these funds and was studying the disposition of the remainder (See p 22)
- In the Oakland Neighborhood Youth Corps program, there were instances of poor handling of enrollees' attendance records and incorrect payments Labor auditors had questioned expenditures of \$156,500 incurred from April 1968 to December 1969 (See pp 27 and 31)

At the Group to Industrialize the Ghetto and the GIG Foundation, two of the council's delegate agencies, GAO found that

- Expenditures of \$128,469 had not been supported (See p 36)
- Unsupported expenditures of \$37,839 had been for questionable purposes, such as paying the personal expense of an officer of the agencies (See p 37)

--Persons placed in jobs had not been enrolled in the program, although such enrollment was required (See p 42)

GAO's review of the Oakland Opportunities Industrialization Center, a delegate agency of the council, showed that

--Expenditures of \$1,285 had not been properly authorized and/or supported (See p 44)

--Controls had not been established over nonexpendable property (See p 45)

--Non-Federal contributions had been inadequate (See p 46)

The council's executive director attributed the weaknesses in the program's administration to the fact that the staff primarily consisted of inexperienced persons from the ghetto. Actions taken to correct administrative and financial weaknesses lagged because the council was emphasizing improving the effectiveness of its programs and providing services to the poor.

Berkeley Neighborhood Youth Corps

The city of Berkeley's internal controls over expenditures of its Neighborhood Youth Corps were adequate. Expenditures of Federal funds were, for the most part, in accordance with Labor's regulations and guidelines (See p 48)

RECOMMENDATIONS OR SUGGESTIONS

Because the city of Oakland has taken over the administration of the Oakland Community Action Program, GAO is not making any recommendations on the deficiencies discussed in this report.

GAO is recommending, however, that OEO, Labor, and HEW consider GAO's findings during the final audit of the Oakland Economic Development Council (See p 47)

CHAPTER 1

INTRODUCTION

In accordance with a request of former Senator George Murphy dated September 19, 1970 (see app. I), the General Accounting Office has examined into the financial administration of certain activities of the Oakland Economic Development Council, Inc. (OEDCI), the former Community Action Agency in Oakland, and the Neighborhood Youth Corps (NYC) program carried out by the Berkeley NYC in Berkeley. These programs are authorized under the Economic Opportunity Act of 1964, as amended (42 U.S.C. 2701). OEDCI's anti-poverty programs were funded by grants and contracts from the Office of Economic Opportunity, the Department of Labor, and the Department of Health, Education, and Welfare. The NYC program in Berkeley was funded by grants from Labor.

Pursuant to the request and subsequent discussions with the Senator's office, we examined the records pertaining to the expenditures of OEDCI's centrally administered programs, of three of its 21 delegate agencies--the Group to Industrialize the Ghetto, the GIG Foundation, and the Oakland Opportunities Industrialization Center--and of the Berkeley NYC program, to ascertain whether grant and contract funds had been expended in accordance with applicable Federal regulations, policies, and procedures.

In a letter dated December 17, 1970, Senator Murphy requested us to send our report on OEDCI and the Berkeley NYC to Congressman Victor V. Veysey. (See app. II.) Subsequently two other members of Congress expressed interest in being advised of the results of our examination.

Our examination was made during the period November 1970 through May 1971 at the various offices of OEDCI and the Berkeley NYC, at the OEO, Labor, and HEW regional offices in San Francisco, California, and at OEO headquarters in Washington, D.C. We reviewed applicable legislation, Federal policies and instructions, and the grant and contract agreements. We also interviewed officials of OEDCI, the Berkeley NYC, OEO, Labor, and HEW.

Our examination of the records of OEDCI and the Berkeley NYC, as agreed upon with Senator Murphy's office, included a test of financial transactions for the month of August 1970 and an examination into certain expenditures incurred during December 1969. Our test of transactions included also certain other expenditures incurred during calendar years 1969 and 1970.

Except for giving consideration to the extent to which persons were placed in jobs developed by two of OEDCI's delegate agencies--the Group to Industrialize the Ghetto and the GIG Foundation--our examination did not include an evaluation of whether the activities of OEDCI and the Berkeley NYC were being carried out in accordance with objectives of the authorizing legislation and with the policies of the Federal agencies concerned.

OEO, Labor, HEW, OEDCI, the Berkeley NYC, and other parties mentioned in this report have not been given an opportunity to examine and formally comment on this report.

The initiation of our examination was delayed 1 month because of (1) the absence of OEDCI's accounting staff members due to its participation in a training seminar, (2) the unavailability to us of OEDCI's records and accounting staff members during an audit conducted by a certified public accountant (CPA) firm, and (3) OEDCI's executive board's adoption of a policy which required parties requesting access to OEDCI's financial records to follow certain procedures in initiating audits. Throughout our audit we were denied timely access to OEDCI's records and staff members.

OEDCI, a nonprofit agency, was established in December 1964 as the policymaking body for the Oakland antipov-erty program being carried out by the Oakland Department of Human Resources. Late in 1967 the Oakland City Council voted to abolish the department of human resources and to turn the operation of the antipoverty program over to OEDCI. On January 1, 1968, OEDCI officially took over Oakland's antipoverty program.

During calendar years 1969 and 1970, OEDCI was provided with Federal funds by OEO, Labor, and HEW in the

following amounts to provide assistance to the poor in Oakland.

<u>Agency</u>	<u>Amount</u>
Labor	\$ 9,322,000
OEO	5,811,000
HEW	<u>324,000</u>
Total	<u>\$15,457,000</u>

For calendar years 1969 and 1970, OEDCI reported that Federal funds amounting to about \$14 million had been expended and that non-Federal contributions amounting to about \$2.6 million had been recorded.

These funds were expended for such activities or programs as neighborhood service centers, parent-child centers, Project Head Start, and NYC and other manpower programs. Of the approximately \$14 million of Federal funds expended in 1969 and 1970, \$6,821,000 was for OEDCI centrally administered programs, \$1,190,000 was for the Oakland Opportunities Industrialization Center, \$131,000 was for the Group to Industrialize the Ghetto and the GIG Foundation, and the remaining \$5,913,000 was for other OEDCI delegate agency programs. Of the \$6,821,000 expended for OEDCI centrally administered programs, \$2,153,000 was for the Oakland NYC.

The city of Berkeley conducts the Berkeley NYC program. Labor awarded two grants totaling about \$755,000 for the operation of the program for the period December 1967 through July 16, 1971, and two grants totaling \$386,130 for the operation of the program for the period July 1971 to July 1972.

OEDCI's grant applications for OEO funds were vetoed by the Governor of California during each of the years 1970 and 1971. With respect to Community Action Agency programs, section 242 of the Economic Opportunity Act of 1964, as amended, provides that, before a Federal program of assistance is provided to an organization within a State, a plan setting forth such assistance be submitted for approval to the Governor of the State. The 1970 veto was rescinded by the Governor once OEO and State of California officials

reached an agreement on the special conditions to be included in OEO's grant to OEDCI.

The Governor's 1971 veto was supported by the Oakland City Council and later was upheld by OEO. In a letter dated February 18, 1971, to the Director of OEO's San Francisco Regional Office, the executive secretary to the Governor of California stated that the Governor had found it necessary to disapprove the funding of OEDCI for 1971-72. The letter stated that OEDCI staff members had seriously undermined the effectiveness of taxpayer-funded programs for the poor, had persisted in violating grant conditions, and had undercut the authority of OEDCI's board of directors. The letter also mentioned that Federal and State representatives of OEO and representatives of the city of Oakland had made an evaluation of OEDCI's operations and had reported the existence of major deficiencies in its operations. OEO, in a letter dated April 12, 1971, upheld the Governor's veto.

Also OEDCI was not funded by Labor and HEW during 1971. In May 1971 the city of Oakland took over the administration of Oakland's Community Action Program. As of October 1971 the city of Oakland was in the process of implementing a new Community Action Program for the Oakland area.

PROGRAM PURPOSE

Title II of the Economic Opportunity Act, as amended, provides for the establishment of community action agencies and programs designed to provide stimulation and incentive for urban and rural communities to mobilize their resources to combat poverty. The programs are to be directed to the needs of low-income persons and families and are to be administered by public and private nonprofit agencies, with maximum feasible participation by residents of the area and members of the groups served.

The act stipulates that a Community Action Program be a community based and operated program which includes, or is designed to include, a sufficient number of projects or components to provide, in sum, a range of services and activities having a measurable and potentially major impact on

causes of poverty in the community or in those areas of the community where poverty is a particularly acute problem.

The NYC program was established under part B, title I, of the act. The Director, OEO, on October 23, 1964, delegated authority to the Secretary of Labor to administer the NYC program. The objectives of the NYC program are (1) to provide part-time employment, on-the-job training, and useful work experience for students from low-income families who are in the ninth through 12th grades of school (or who are of an age equivalent to that of students in such grades) and who are in need of the earnings to permit them to resume or maintain attendance in school or (2) to provide useful work and training (which must include sufficient basic education and institutional or on-the-job training) designed to assist unemployed, underemployed, or low-income persons aged 16 and over to develop their maximum occupational potential and to obtain regular competitive employment.

The Concentrated Employment Program (CEP) was established under part B, title I, of the act, as amended by the Economic Opportunity Amendments of 1967 (42 U.S.C. 2737). The Director of OEO delegated authority to administer CEP to the Secretary of Labor. The objective of CEP is to combine, under one sponsor and in a single contract, all the manpower programs and services that are necessary to help a person move from unemployability and dependency to self-sufficiency.

CHAPTER 2

FINANCIAL ADMINISTRATION OF FEDERAL FUNDS

BY THE

OAKLAND ECONOMIC DEVELOPMENT COUNCIL, INC

FOR CENTRALLY ADMINISTERED PROGRAMS

Our examination into OEDCI's financial administration and control over the expenditure of Federal funds for its centrally administered programs revealed numerous deviations from OEO and Labor requirements relating to employee time and attendance reports, salary limitations, leave records, employee salary advances and loans, procurement practices, nonexpendable property, non-Federal contributions, and NYC enrollee time and attendance reports. We noted that payments had been made to some NYC enrollees for time not worked and that weaknesses existed in handling NYC enrollee stipend payments.

A number of reports have been issued by OEO and Labor auditors and CPAs, which have described inadequacies in OEDCI's accounting system and internal controls and which have questioned the expenditure of Federal grant funds. Many of the deviations discussed in this report that we identified in our review were identified also in these other audit reports.

HEW, for the most part, has adopted the requirements established by OEO with respect to the administration of HEW Head Start program funds provided to OEDCI.

Our audit of the records of the expenditures of OEDCI's centrally administered program included tests of selected non-NYC enrollee stipend transactions entered into by OEDCI in August 1970 when OEDCI recorded expenditures for such transactions totaling about \$303,000. Our review, on a test basis, of OEDCI expenditures amounting to \$1.9 million for NYC enrollee stipend payments incurred during the period April 1968 to December 1970 is discussed on page 27.

PERSONNEL MATTERS

OEDCI has not always adhered to OEO and/or Labor instructions relating to employee time and attendance reports, salary limitations, and leave records. We examined the records pertaining to 50 employees selected at random from the 241 employees in the month of August 1970. Payroll and related costs amounted to about \$1,625,000, or about 50 percent of the \$3.2 million expended by OEDCI during calendar year 1970.

Time and attendance reports

OEO and Labor instructions require that grantees maintain time and attendance reports to substantiate payroll costs. OEO and Labor instructions and OEDCI procedures also require that employees sign, and supervisors review and approve, time and attendance reports.

Our examination of employee time and attendance reports representing payments amounting to \$16,693 to the 50 employees showed that 35 of the 50 time and attendance reports had not been signed by the employees and/or supervisors.

Salary limitations

OEO instructions require that the starting salary of a new employee paid over \$5,000 annually be limited to an increase of 20 percent over his prior salary or to \$2,500, whichever is less, unless OEO approval is obtained. The salary increase of an employee whose salary is over \$5,000 also is limited by OEO instructions to 20 percent or \$2,500, whichever is less, of his starting salary during the first 12-month period of employment and is limited also to an increase up to 20 percent each year thereafter. A salary increase exceeding 20 percent, or \$2,500, in a single 12-month period must be approved by OEO. Labor also requires 20-percent limitations on starting salaries and annual salary increases, however, Labor's salary limitations are applicable to employees whose salaries are over \$6,000.

Our examination of the personnel folders of 21 of the 50 employees showed that, without OEO or Labor approval, two employees had received starting salaries in excess of OEO's

and Labor's starting-salary limitation and that three employees had received salary increases in excess of OEO's and Labor's annual-salary-increase limitation. Information on file in the personnel folders of the 21 employees showed that as of August 1970 the annual salaries of 20 of the employees exceeded \$5,000 each.

The limitation on starting salaries for the two employees was exceeded by a total of \$3,516, and the limitation on salary increases for the three employees was exceeded by a total of \$5,929. The amounts actually paid to the five employees through August 1970 exceeded the limitations by a total of \$7,988.

Leave records

OEO and Labor instructions require that grantees maintain records for each employee showing balances available for annual, sick, and other types of leave. Our examination of the 50 employees' leave records showed that, as a result of mathematical errors (1) three annual leave records had been overstated by 25 hours, (2) two sick leave records had been overstated by 41 hours, and (3) one sick leave record had been understated by 7-1/2 hours.

EMPLOYEE ADVANCES AND LOANS

Although OEO guidelines provided that, as a matter of policy, emergency loans or salary advances to employees be avoided and be granted only in rare cases, 31 percent of OEDCI's staff members had had payroll deductions for loan repayments during the period January through August 1970. Labor has no instruction applicable to the granting of salary advances and loans by grantees to its employees.

Our examination of OEDCI's January through August 1970 payroll records showed that OEDCI had advanced or loaned funds to its employees and that repayments were being made through periodic payroll deductions. The advances or loans were made for periods up to 12 months and for amounts up to \$1,500.

We were unable to ascertain readily the total amount of OEDCI advances or loans to its employees during the period

January through August 1970 because OEDCI's records were not maintained in such a manner that this information could be readily obtained. OEDCI employees were not required to sign promissory notes evidencing advances or loans, and supporting documentation usually consisted of only memorandums from the employees requesting the loans.

A report by OEDCI, however, showed that as of October 30, 1970, 27 OEDCI employees had outstanding advance or loan balances totaling about \$4,500. The report showed also that these outstanding balances represented advances or loans originally totaling about \$11,000. Our review of OEDCI's payroll records showed that (1) between January and August 1970, 74 employees, or 31 percent of the staff members, had payroll deductions for loan repayments amounting to about \$28,000 and (2) in August 1970 28 employees, or 12 percent of the staff members, had similar deductions totaling \$811.

We brought this matter to the attention of OEDCI officials, and they issued written instructions in February 1971 limiting the granting of salary advances or loans to amounts represented by the accumulated days worked by employees for which compensation had not been paid. We noted that salary advances or loans outstanding in February 1971 had decreased to \$1,555. Of this amount, \$655 represented balances due on advances or loans made during 1970 and \$540 represented unrecovered amounts owed by former employees.

PROCUREMENT PRACTICES

OEDCI had not always adhered to OEO and Labor guidelines relating to procurement practices

In March 1971 an OEDCI consultant reported the following weaknesses in OEDCI's procurement practices that we also noted during our review: (1) the absence of a written manual prescribing appropriate procurement procedures, (2) the absence of records on the status of purchase orders, (3) the absence of a list of employees authorized to sign requisitions, and (4) purchases by OEDCI's employees other than its purchasing department personnel

Questionable procurements

OEO guidelines provide that purchases of goods and services generally be initiated by purchase orders or requisitions and that the receipt of goods and services be adequately documented. Labor has similar requirements relating to procurement practices.

Our review showed that, of the expenditures of \$23,311 by OEDCI in August 1970 for supplies, equipment, contractual services, and the rental of space, expenditures totaling \$7,210 were questionable for the reasons shown below

<u>Cost category</u>	<u>Amount expended</u>	<u>Amount questioned</u>	<u>Basis for questioning</u>
Consultant and contract services	\$ 3,858	\$2,220	Not provided for in budget, although required by OEO guidelines
OEDCI space rentals	14,998	3,375	Rentals for time periods for which no lease agreement existed
Consumable supplies	2,102	797	No purchase authorization or evidence of receipt
Equipment	2,353	38	Duplicate payment
		<u>780</u>	No purchase authorization
Total	<u>\$23,311</u>	<u>\$7,210</u>	

Questionable consultant contracts

OEO guidelines state that whenever feasible consultant fees paid be substantiated by proposals from more than one reputable consultant and that bills provide clear statements of the services performed. Although Labor has no guidelines applicable to consultant contracts, it does require that grantee costs be supported by documentation relative to the type of costs incurred.

Our audit of an OEDCI delegate agency--Group to Industrialize the Ghetto (see ch 3)--showed that in calendar year 1969 OEDCI and this delegate agency entered into two consultant contracts amounting to \$5,500

In October 1969 OEDCI awarded a contract in the amount of \$3,500 to the delegate agency for accounting services to be provided to OEDCI. The contract did not specify the type of accounting services to be provided. The delegate agency was paid \$3,148 under this contract. In December 1969 this delegate agency was awarded the second contract, in the amount of \$2,000, to devise a pilot program with reference to the feasibility and usefulness of drawing up a directory of minority businesses in Oakland. The delegate agency was paid the \$2,000, 2 weeks after entering into this contract.

Our examination of the records available at OEDCI and the delegate agency and our discussions with officials of both organizations concerning these two contracts did not result in our obtaining information on (1) the basis that had been used for selecting the delegate agency as the consultant, (2) whether proposals had been obtained from other consultants, (3) whether consideration had been given to the consultant's qualifications to perform the services contracted for, and (4) whether the work contracted for had been performed.

Price quotations not obtained

OEO guidelines provide that competitive quotations be obtained, if customarily furnished by suppliers, and that goods and services be purchased through the General Services Administration (GSA) or through other sources where unit

costs normally are restricted to the equivalent GSA price. Labor requires its grantees to obtain all supplies and equipment at the lowest practicable cost and to utilize the procurement sources available through GSA prior to using private sources.

Our examination of OEDCI's August 1970 procurement expenditures showed that OEDCI had not obtained competitive price quotations from potential suppliers for its procurements and had not given consideration to possible savings by purchasing through GSA, the source suggested in OEO's and Labor's guidelines.

OEDCI's purchasing supervisor informed us that, during most of calendar year 1970, price quotations from potential suppliers had not been obtained and that vendors had been selected by the staff member requesting the procurement action, rather than by the procurement office. Our examination into two December 1970 procurements indicated that price quotations had not been obtained for the procurements. For one of the procurements--office equipment--the price of \$774 was \$276 more than the GSA catalog price for similar equipment.

OEDCI's purchasing supervisor informed us that OEDCI's policy was to purchase from minority businesses even though their prices might be higher than those of other suppliers.

Excessive equipment rental costs

OEO instructions require that grantees consider the relative cost advantages of leasing and purchasing when acquiring or renting property and that property generally be purchased when lease costs over a 3-year period exceed the purchase price.

During the month of August 1970, OEDCI did not make any significant expenditures for the rental of equipment. Therefore, to test whether OEDCI had considered the relative cost advantages of leasing and purchasing, we examined into OEDCI's December 1969 rental expenditures which amounted to \$3,500. OEO grant funds were used to pay these costs.

Our examination revealed one transaction for the rental of 52 items of office equipment for periods ranging from 5 to 12 months that could have been purchased through GSA for about \$980 less than the rental costs of \$2,890. For some of the items of equipment, the rental costs exceeded, by three and four times, the GSA purchase price, as shown below.

<u>Item</u>	<u>Months rented</u>	<u>Rental cost</u>	<u>GSA purchase price</u>	<u>Savings through purchasing</u>
4 tables	12	\$260	\$ 66	\$194
6 stacking chairs	10	210	47	163
2 swivel chairs	10	100	47	53
4 metal desks	12	<u>390</u>	<u>300</u>	<u>90</u>
Total		<u>\$960</u>	<u>\$460</u>	<u>\$500</u>

OEDCI's staff informed us that the practice of renting office furniture was a carry-over from 1967 practices when the Oakland Community Action Agency was operated by the city of Oakland.

ACCOUNTABLE PROPERTY

During calendar year 1970 OEDCI, in a number of instances, had not adhered to OEO instructions which required that grantees maintain property cards on all nonexpendable property, conduct annual periodic physical inventories to verify the existence and location of the property and reconcile property records, submit an inventory of property on hand in annual grant renewal proposals, and inform OEO promptly if such property was lost, destroyed, or stolen. Labor has similar requirements for controlling and safeguarding nonexpendable items purchased with Federal funds.

During calendar year 1970 OEDCI expended about \$49,000 for the purchase, rental, and lease of equipment. Our examination of the records maintained for 13 property acquisitions made during 1970 at a cost of \$9,564 showed that property cards had not been prepared for six acquisitions costing \$5,713. The acquisitions included musical instruments, photography equipment, and a record player.

Our examination of 30 property cards, selected at random from the approximately 600 property cards on file in April 1971, showed that 13 cards did not contain complete information on the property acquired, such as the date of acquisition and source of funding. Also, for six property items selected from the 30 cards, we were unable to locate two of the items at the locations shown on the cards.

OEO's San Francisco Regional Office auditors reported in September 1969 that OEDCI had not included in its grant renewal proposal for calendar year 1969 an inventory of nonexpendable property. An OEO official informed us that OEDCI's grant renewal proposal for calendar year 1970 did not include an inventory of property and that an inventory of property was not submitted to OEO until October 1970.

Of the 13 OEDCI property acquisitions made during calendar year 1970 that we examined into, nine were purchased with OEO funds before the submission of the October 1970 inventory, but only four of the items were included in the inventory.

Labor representatives informed us that, as of April 1971, OEDCI had not submitted an inventory of its property in connection with its February 1970 CEP grant, despite a requirement in the grant to do so

OEDCI's controller informed us that, due to more pressing demands, he had not reported to the responsible Federal agencies four instances of property thefts dating back to October 1970. Because of incomplete records of property acquired, it is questionable whether OEDCI was able to identify all the property which was missing

OEDCI's executive director informed us that, although OEO and Labor had attempted to establish an adequate property management system, a satisfactory system had not been established

OEDCI was responsible, under OEO instructions, for ensuring that delegate agencies complied with property management requirements. We noted that the three delegate agencies included in our review were not maintaining adequate property records. (See chs 3 and 4)

NON-FEDERAL CONTRIBUTIONS

The authorizing legislation for the programs administered by OEDCI generally requires that a grantee provide a specified percentage of total project costs in cash or in-kind contributions. OEDCI's records showed that, for calendar year 1970, OEDCI had recorded non-Federal contributions totaling about \$1,528,000, consisting of delegate agency contributions of \$1,267,000 and OEDCI contributions of \$261,000.

We examined into selected non-Federal contributions recorded in calendar year 1970, which totaled \$117,325--\$84,000 contributed by the Parent Child Center, an OEDCI delegate agency funded by OEO, and \$33,325 contributed by OEDCI. For \$94,388 worth of these contributions, supporting documentation was not available. Our examination into \$16,646 worth of the \$94,388 contributions showed that the actual values of the donated services were significantly less than the amount of the contributions

OEO and Labor instructions require that a non-Federal contribution recorded for donated services or material be supported by records signed by both the donor and his supervisor specifying actual hours worked, services performed, and/or the actual material donated

Our examination into the recorded contributions worth \$84,000 showed that supporting documentation consisted of offers to donate services, some of which were made in 1968. The center did not have a record showing its acceptance of the offers or a record showing that the services had been provided.

Two recorded non-Federal contributions of the center representing services valued at \$16,646 showed that the actual values of the services donated had been significantly less than the amounts of the contributions.

A September 1968 letter from a University of California psychologist offering the donation of one-half day a week of professional time for consultation purposes was used by the center in support of \$13,500 claimed in calendar year 1970 for non-Federal contributions. In his letter the psychologist stated that his salary from the university for an 11-month period amounted to about \$13,500 (\$57 a day). We were unable to locate documentary evidence that the offer had been accepted or that any services had been provided by the psychologist. We interviewed the psychologist, and he informed us that he had worked about 13 days for the center in 1970. Consequently the center recorded non-Federal contributions for his services at a rate in excess of \$1,000 a day.

A January 1969 letter from a Laney College teacher-counselor offering to contribute 520 hours of counseling and consultant services was used by the center in support of \$3,146 (520 hours at \$6.05 an hour) claimed in calendar year 1970 for non-Federal contributions. We were unable to locate documentary evidence that this offer had been accepted or that the services had been provided by the teacher-counselor.

We interviewed the teacher, and she informed us that she had made the offer but that she had contributed only

30 or 40 hours of work during 1969, not 520 hours. She stated that she had left the Laney Inter-City Project in the summer of 1969, at which time she discontinued providing her services to the center.

Our examination into the recorded contributions by OEDCI of \$33,325 showed that contributions of \$10,388 were questionable because supporting documentation was not available. Documentation for a \$10,388 non-Federal contribution consisted of OEDCI interoffice letters by an OEDCI staff member that contained estimates of OEDCI staff overtime, volunteer time by private parties, and donated materials

OEO AND CPA AUDITS OF OEO FUNDS
PROVIDED TO OEDCI

OEO procedures provide that annual audits be made of each of its grantees by OEO auditors or by public accountants hired by the grantee. These audits are to be made to determine (1) the adequacy of the grantee's accounting system and internal controls, (2) compliance with OEO grant conditions and requirements, (3) the allowability of costs incurred under grants, and (4) the status of total funds provided and the unexpended balances at the termination of the grant period.

Reports on the results of these audits are to be provided to OEO for its consideration. Costs questioned as unallowable by the auditors and subsequently upheld as unallowable by OEO administrative appeal procedures must be repaid to the Government.

Since its inception as the Community Action Agency of Oakland in January 1968 through December 31, 1970, OEDCI and certain of its delegate agencies have been audited by OEO auditors, Labor auditors, and CPA firms. The results of certain of these audits are discussed below. Labor's audit of NYC expenditures is discussed on page 31.

Costs questioned by auditors

Various audits of OEDCI covering the period January 1, 1968, to December 31, 1970, identified certain costs as being questionable because they were not considered allowable under OEO's grant terms and regulations. An OEO official informed us that final determinations on the status of some of the questionable costs would not be made until a final audit was made of the expenditures incurred by OEDCI through May 21, 1971, the expiration date of the period covered by OEO's grants.

In June 1971 Labor awarded a contract to two CPA firms for reconstructing OEDCI records to put them into an auditable condition. A Labor official informed us that the CPA firms did not expect to complete their work under this contract until the middle of calendar year 1972. An OEO official informed us that, upon completion of the CPAs' work,

OEO would make a final audit of OEDCI for all Federal agencies involved in funding OEDCI

The September 14, 1971, status of OEO funds questioned by OEO auditors and CPAs through December 31, 1970, is shown below

<u>Costs questioned by auditors and upheld by OEO final administrative determination</u>	<u>Amount</u>
The 1969 youth program costs questioned were (1) improperly incurred renovation costs of \$21,818, (2) unauthorized and unsupported costs of \$29,084 for Thanksgiving and Christmas projects, (3) unallowable consultant fees of \$8,025, and (4) unauthorized salary payments of \$5,199. Repayments have been requested by OEO. Legal actions are being considered by OEO.	\$ 64,126
Administrative costs were questioned because they exceeded the 1969 budget authorization by \$76,674. Funds were expended in spite of instructions from OEO to the contrary. OEO requested repayment on June 10, 1971. OEDCI stated on June 18, 1971, that it had no capability, staff, or resources to respond to the issues raised. This matter was referred on August 17, 1971, to OEO's Washington headquarters for appropriate legal action.	76,674
<u>Costs questioned by auditors for which final administrative determinations were in process by OEO</u>	
The 1970 OEDCI administrative and program costs questioned were (1) unauthorized expenditures of \$30,688 over program account budget, (2) excessive starting salaries of \$24,936, (3) unauthorized salaries of \$11,505, (4) unsupported program expenditures of \$13,944, (5) unsupported gas and oil expenditures of \$454, (6) loans of \$672 recorded as expenditures, (7) expenditures of \$1,565 for liquidation of contract, (8) expenditures of \$6,054 after grant termination date, and (9) unrecorded 1968 liabilities of \$3,014 liquidated in 1970. OEO was evaluating OEDCI's appeal on the audit findings.	92,832
The August 1968 through February 1970 OEDCI delegate agency operating program costs questioned were (1) unallowable costs of \$13,312 incurred after grant termination, (2) unauthorized excess salary payments of \$3,235, (3) unallowable supplemental salaries of \$6,241 paid to NYC enrollees, (4) unauthorized purchases of \$5,268 worth of equipment, (5) unallowable purchases that exceeded GSA prices by \$850, and (6) expenditures of \$940 incurred contrary to conflict of interest provisions in grant. OEO was evaluating OEDCI's appeal on the audit findings.	<u>29,846</u>
Total questioned costs outstanding	<u>\$263,478</u>

Auditors' evaluations of OEDCI's
financial management

The audit reports issued by OEO auditors and by a CPA firm have described various accounting and financial problems encountered by OEDCI in the administration of its programs. The two reports most relevant to the period covered by our review are (1) a CPA firm's report dated June 18, 1971, covering calendar year 1970 OEDCI grant expenditures and (2) a report by the same CPA firm and a management consultant firm in March 1971 entitled "Concentrated Management Improvement Diagnostic Report." The purpose of the diagnostic report was to disclose weaknesses and problem areas within OEDCI and to recommend solutions.

The CPA firm's audit report covering 1970 expenditures indicated that OEDCI's accounting system and internal controls had been considered inadequate because, among other things

- 1 Procurement procedures were inadequate
2. Records of voided checks were inadequate.
3. Numerous bank accounts made control over fund movements difficult
- 4 Bank reconciliations were not up to date.
- 5 Bank reconciliations were prepared by one bookkeeper who also kept the cash books for certain funds
- 6 Individual time records were not maintained.
- 7 Supervisors were not required to return unclaimed checks for wages that were not immediately distributed
- 8 Control over salary advances was inadequate.
- 9 Delegate agency financial reports sometimes were late or were incorrect

- 10 OEDCI did not have contracts with certain of its delegate agencies.
11. Some delegate agency contracts did not reflect the final approved budget data.
- 12 Property records were not maintained on a current basis.
- 13 The 1970 inventory count sheets were misplaced and not available for the auditors' review
- 14 Internal financial statements to grantee's management were not prepared on a monthly or periodic basis
- 15 The chart of accounts did not provide separate and sufficient control accounts for expenditures by fund, grant, or Federal and non-Federal share for either the grantee or the delegate agencies.
- 16 Subsidiary ledgers were not maintained for accounts payable, accounts receivable, and other accounts requiring supporting details for control purposes

In addition, the CPA firm's report indicated that the accounting system and internal controls of six OEDCI delegate agencies were inadequate.

The diagnostic report concluded that OEDCI's purchasing, payroll, and cash disbursements procedures generally were adequate. The report stated, however, that corrective actions were needed in several areas because of the following weaknesses

- 1 No written procurement procedures
- 2 Purchases initiated by employees outside the purchasing department, at times without issuance of purchase orders
3. Inadequate data to maintain control over purchases.
4. Inadequate record of voided checks

- 5 Internal control weaknesses due to numerous bank accounts.
- 6 Reconciliations not up to date
- 7 Reconciliations performed by person who also kept cash books.
- 8 Checks sometimes prepared on basis of purchase orders when invoices and receiving reports were received at a later date or were not received at all
- 9 Inadequate time and attendance reporting
- 10 Controls not adequate to prevent unauthorized persons from receiving payroll checks

In addition, the diagnostic report commented on deficient accounting systems and controls of certain delegate agencies and on the need for immediate improvement in property controls because property records were not up to date, were incomplete, or were not in agreement with the general ledger

NEIGHBORHOOD YOUTH CORPS STIPEND PAYMENTS

OEDCI expended Labor grant funds of about \$2 3 million to administer NYC summer and out-of-school programs for the period of April 1968 through December 1970. During the period about \$1.9 million of that amount was expended for NYC enrollee stipends. The remaining \$400,000 was expended for administrative costs which we examined into on a test basis in connection with our review of OEDCI's August 1970 expenditures.

The summer NYC program provides work-training experience to persons during the summer vacation period. The out-of-school NYC program provides work-training experience to persons who are out of school, are not planning to return to school, and are in need of useful work to develop maximum occupational potential.

Our examination of OEDCI's calendar year 1970 NYC summer program stipend payments revealed certain weaknesses in OEDCI's administration of the payments, including

- Inadequate documentation of enrollee's attendance
- Payments made to enrollees for time not worked.
- Inadequate controls over handling of enrollee stipend payments

Our examination into the out-of-school program's August 1970 stipend payments showed that, except for payments to a small number of ineligible enrollees, the payments had been proper.

With respect to the NYC programs' expenditures incurred during the period April 1968 to December 1969, Labor auditors reported that weaknesses existed in the administration of the programs, including inadequate documentation for some enrollee stipend payments and payments to enrollees for hours worked in excess of those authorized.

1970 summer program

Labor's grant for the 1970 summer program was to provide 1,200 Oakland youths with work experience, earnings, and supportive service during the period June 6 through September 4, 1970. The grant provided for the payment of stipends to the enrollees at the rate of \$1.45 an hour for regular enrollees for a maximum workweek of 26 hours for a 10-week period.

Our examination into the 1970 summer program costs was limited principally to August 1970 stipend payments, totaling \$6,752, made to 59 enrollees selected at random. Stipend payments totaling \$144,000 were made in August 1970. We also examined into certain other enrollee costs.

Time and attendance records

Labor instructions require that grantees maintain for each enrollee time and attendance reports, signed by a supervisor, showing the hours worked.

Our examination showed that, of the payments to the 59 enrollees, payments totaling \$3,638 to 32 enrollees either were not supported by time and attendance reports or the reports did not show the hours worked, were not approved by the supervisors, or were not dated. We also scanned the time and attendance reports prepared for the July and September 1970 NYC summer program payrolls and found additional instances where such information was not shown.

Payments made for work not performed

Our examination showed that five of the aforementioned 32 enrollees and 48 other enrollees had received stipend payments totaling \$12,243 for time not actually worked.

The Naval Supply Center in Oakland, where some enrollees had been assigned for work, maintained time and attendance records for four of the 32 enrollees. The number of hours worked during the 1970 summer program by each of the four enrollees as shown on the center's records was less than the number of hours worked as represented by the payments made. The four enrollees were paid for a total of

731 hours worked, although the center's records showed that the four enrollees had worked a total of only 542 hours. We were informed by an enrollee assigned to another agency that she had worked only the last 2 weeks of the program; however, OEDCI had paid her for 7 weeks. Stipend payments totaling \$463 had been made to these five enrollees for time not actually worked.

In addition, the 1970 summer program payroll supervisor informed us that many enrollees who initially had enrolled in the 1970 summer program had not participated and had not been assigned to work stations. She stated that she had been instructed by OEDCI officials to distribute the stipend checks to those enrollees who could be located, even though they had not worked at assigned agencies. She also provided us with a list of checks, totaling \$11,780, which she stated had been distributed to 48 enrollees who had not performed any work but whom she had been able to locate.

We contacted the agencies to which four of the 48 enrollees were shown on the list to have been assigned, and in each case we were told that the enrollee had not worked at the agency. Also one of the four enrollees told us that, although she had not worked in the program, she had been contacted by the NYC payroll office and asked to come in and pick up her payroll check.

OEDCI's deputy director informed us that OEDCI's policy was to distribute paychecks to enrollees even though they had not worked because they were poor and were in need of the funds.

Controls over enrollee stipend checks

Adequate controls were not maintained to safeguard enrollee stipend checks against loss. The summer program payroll supervisor informed us that, after their delivery from OEDCI's bank, she kept payroll stipend checks in her possession until payday rather than put them in OEDCI's safe. The payroll checks for each of the three 1970 summer program payrolls amounted to \$89,000, \$144,000, and \$214,000. She also informed us that she kept unclaimed checks in her possession, either in her car or at home, for several days after payday before turning them over to the OEDCI accounting department.

Other weaknesses in handling
enrollee stipend payments

We noted other weaknesses in OEDCI's handling of enrollee stipends, as follows

	<u>Amount</u>
Unrecovered funds for stolen stipend checks	\$1,550
Unrecovered overpayments	1,455
Uncashed stipend checks not credited to the grant	1,365
Payments made in excess of amounts allowable	<u>1,680</u>
Total	<u>\$6,050</u>

Enrollee stipend checks amounting to about \$1,550 were stolen from 10 enrollees and cashed. We were informed by OEDCI personnel that affidavits of the thefts had been obtained from the enrollees and that duplicate checks had been issued but that OEDCI had taken no action to recover the amounts from its bank. An official of OEDCI's bank informed us that, if OEDCI could substantiate that the checks were fraudulently endorsed and cashed, the bank would reimburse OEDCI. We brought this information to the attention of OEDCI's executive director.

About 60 stipend checks were prepared in incorrect amounts--involving both overpayments and underpayments--for the final pay period of the 1970 summer program. This situation occurred because inaccurate earnings data inadvertently had been sent by OEDCI to the bank for use in preparing enrollee checks. For all but nine of the 60 checks, the errors were discovered by OEDCI personnel prior to the distribution of the checks or the incorrect checks were recovered from the enrollees. Although OEDCI sent form letters to the nine enrollees notifying them that they had been overpaid, the checks were cashed, which resulted in overpayments of about \$1,455. No further action was taken by OEDCI to recover the overpayments.

As of March 31, 1971, 10 stipend checks amounting to about \$1,365, which had been issued during the period July through September 1970, had not cleared the bank. At the time of our review, OEDCI, although it had stopped payment on the checks, had not eliminated the expenditures from its records and credited the grant. We brought this matter to the attention of OEDCI's executive director.

Our review showed that, of the approximately 1,200 enrollee in the summer program, 391 had been paid stipends ranging from \$379 to \$415 during the period July through September 1970 and that these stipends had exceeded the maximum amounts payable by about \$1,680. OEDCI's grant provided for the payment of a stipend up to \$377 unless an exception was approved by Labor. A Labor representative informed us that Labor had not approved any payments in excess of the \$377 maximum. OEDCI officials were unable to explain why these overpayments had occurred.

Out-of-school program

Our examination into the 1970 out-of-school program enrollee stipends was limited to \$1,116 of the \$12,373 expended in August 1970 and showed that the payments had been for authorized purposes, had been properly computed, and had been supported by time and attendance records. We noted, however, that two of the program's 74 enrollees had not qualified for enrollment on the basis of Labor's family income criteria. These two enrollees were paid stipends totaling \$4,090 during their participation in the program. An OEDCI official told us that the two enrollees would be terminated from the program.

Labor audit of OEDCI's NYC program

Labor auditors made an audit during 1970 of OEDCI's NYC summer and out-of-school programs covering the period April 1968 through December 1969 and noted many of the same program weaknesses shown by our audit of 1970 transactions. During the period April 1968 through December 1969, about \$1,557,000 in Federal funds were expended by OEDCI under the NYC program.

Labor's audit report cited certain weaknesses in OEDCI's administration of the NYC program, including inadequate documentation for some enrollee stipend payments, payments for hours worked by enrollees in excess of those authorized, and inadequate accounting records. The report also stated that an examination of enrollee stipend payments indicated the possibility of irregular transactions. As of October 1971 the possibility of irregular transactions in enrollee stipend payments was being considered by Labor attorneys.

The report stated that OEDCI files did not contain enrollment or other personnel documents necessary to determine whether enrollees were eligible and whether they actually were enrolled and had accomplished their work assignments. The report stated also that time and attendance records could not be located to verify the attendance of 226 enrollees who had been paid stipend allowances. The report questioned costs totaling about \$156,500 consisting of stipend payments of about \$75,000 and other expenditures, primarily staff salaries in excess of limitations, of about \$81,500.

CHAPTER 3

FINANCIAL ADMINISTRATION OF FEDERAL FUNDS

BY THE

GROUP TO INDUSTRIALIZE THE GHETTO

AND THE GIG FOUNDATION

Our examination showed that significant weaknesses existed in the administration of funds of \$148,048 provided by Labor for the CEP and expended by OEDCI's delegate agencies--the Group to Industrialize the Ghetto (Group) and the GIG Foundation (Foundation). These funds were provided to the delegate agencies under OEDCI subcontracts for the period August 1968 through December 1970. Financial and program weaknesses identified during our audit were as follows:

- Expenditures of \$128,469 were not supported.
- Unsupported expenditures of \$37,839 were for questionable purposes, such as paying the personal expense of an officer of the delegate agencies.
- Persons placed in jobs were not enrolled in the program, contrary to requirements.

On March 16, 1971, GAO submitted information about certain expenditures by the Group and the Foundation to the Department of Justice for its consideration of possible violations of Federal criminal law. Nothing contained in this chapter should be construed as a determination that there has or has not been a violation of Federal criminal law, and care should be exercised in the use of information contained in this chapter because disclosure of the contents conceivably could prejudice the Government's interest. As of January 1972 the Department of Justice was considering this matter.

The objective of CEP is to combine, under one sponsor and in a single contract, all the manpower programs and

services that are necessary to help a person move from unemployability and dependency to self-sufficiency.

OEDCI awarded subcontracts to the Group and to the Foundation totaling \$154,317 and covering the period August 1968 through December 1970, as follows:

<u>Delegate agency</u>	<u>Subcontract period</u>	<u>Amount of subcontract</u>	<u>Reported subcontract expenditures</u>
Group	Aug. and Sept. 1968	\$ 13,272	\$ 10,419
Group	Oct 1968 to Jan. 1970	86,042	86,203
Foundation	Feb to Dec. 1970	<u>55,003</u>	<u>51,426</u>
Total		<u>\$154,317</u>	<u>\$148,048</u>

The subcontracts with the Group and the Foundation provided for the development of jobs and for CEP enrollees to be placed in the developed jobs, as follows

<u>Delegate agency</u>	<u>Subcontract period</u>	<u>Number of jobs to be developed</u>	<u>Number of CEP enrollees to be placed</u>
Group	Aug. and Sept. 1968	100	(a)
Group	Oct. 1968 to Jan. 1970	(a)	(a)
Foundation	Feb. to Dec 1970	150	75

^aNot specified.

CEP guidelines define "job development" as locating and developing job slots, working with private business to develop job opportunities, and expanding present and long-range job opportunities at entry-level positions with potential for advancement. Job placement involves the matching of skills of the CEP enrollee with the requirements of a particular job and employer.

The purpose of the Group and the Foundation, as stated in their corporate charters, was to advance the economic development of the ghetto. The same person was president of both organizations, and another person was chairman of the board of directors of both organizations. The Group's activities included providing private parties and public organizations with painting, janitorial, maintenance and cleanup, and security guard services.

Because of the reduction in CEP funds available for the Oakland area and OEDCI program activities, OEDCI did not fund the Foundation beyond December 1970.

INADEQUATE ACCOUNTING RECORDS, SUPPORTING
DOCUMENTATION, AND QUESTIONABLE EXPENDITURES

OEDCI's subcontracts with the Group and the Foundation required them to maintain books, records, documents, and other evidence sufficient to account for costs claimed in the performance of the subcontract work. Labor also required documentation to support and justify expenses claimed, including (1) time and attendance records, (2) evidence and approval of travel expenses, (3) evidence of receipt of goods and services, and (4) invoices and bills

The accounting records of the Group and the Foundation did not adequately account for costs claimed in the performance of the subcontract work.

During the period August 1968 through January 1970, the Group's records consisted of canceled checks, some vendors' invoices, and a set of books of account which showed expenditures by check numbers, amounts, and payees. The Group did not maintain a general ledger and subsidiary records and did not reconcile its bank statements. In addition, the Group's records did not show whether the expenditures were applicable to the CEP subcontract or to the Group's non-CEP activities.

In October 1969 a representative of Labor's San Francisco Regional Office, who was monitoring the Oakland CEP program, asked a consultant to provide technical assistance to the Group. The consultant reported to Labor and OEDCI on October 16, 1969, that two major problems confronting the Group were the almost total lack of proper recordkeeping and the virtual absence of normal administrative procedures for a business enterprise or organization.

In February 1970 the consultant was formally hired to assist the Foundation. The services provided by the consultant prior to February 1970 were rendered on a voluntary basis without compensation. The Labor representative informed us that the consultant was to correct existing financial problems and to record the purpose of CEP fund expenditures. Among other duties, the consultant assumed control over the Foundation's February 1970 subcontract funds, paid the expenses of the Foundation, and maintained books of

account which identified, in most instances, the purpose of the Foundation's expenditures.

Our examination of the supporting documentation for expenditures of \$128,810 reported by the Group and the Foundation during the period August 1968 through December 1970 showed that supporting documentation was not available for expenditures totaling \$128,469

REPORTED GROUP AND FOUNDATION EXPENDITURES

<u>Expense category</u>	<u>Amount expended</u>	<u>Amount reviewed</u>	<u>Amount questioned</u>	<u>Basis for questioning</u>
Salaries and related expenses	\$115,291	\$115,291	\$115,291	No personnel records to identify employees, their term of employment, and basis for rate of compensation No time and attendance or leave records to support payment to employees for hours worked
Travel	1,604	1,604	1,604	No vouchers to support travel claims
Equipment	1,784	1,784	1,784	No purchasing records to show that procurements were properly authorized and that goods were received Incomplete file of vendors' invoices to support amount of each expenditure and whether it was made under the CEP sub-contract No property records or inventories to identify equipment on hand
Rent	6,136	6,136	6,136	No documentation available to provide a basis for establishing rental rate and portion of facility used for non-CEP activities
Insurance and bonding	1,246	1,246	1,246	No documentation to support that expenditures were for CEP activities
Other direct costs	<u>21,987</u>	<u>2,749</u>	<u>2,408</u>	No supporting vouchers
Total	<u>\$148,048</u>	<u>\$128,810</u>	<u>\$128,469</u>	

In addition, our examination of selected unsupported Group and Foundation expenditures showed that expenditures amounting to \$37,839 were for questionable purposes. The details on these expenditures are discussed in the sections which follow

Nepotism

We found that the president of the Group and Foundation had employed his relatives on CEP-funded projects. Available canceled checks showed that CEP funds of \$11,534

had been paid to the president's wife, father, and two brothers during 1969 and 1970

Labor directives provide that no person hold a job while he, or a member of his immediate family, has authority over personnel actions affecting the job, has supervisory authority over the job, or has authority affecting job applicants for the program in which the job exists

Unreimbursed advances used to finance
the Group's non-CEP activities

We identified 16 instances of cash advances amounting to \$12,090 made by the Group from its CEP funds during the period October 31, 1968, through October 31, 1969, to finance its non-CEP activities. The Group recorded the advances in its books as accounts receivable due from the "GIG Profit Making Corporation." Although OEDCI learned of these advances while reviewing the Group's records in April 1969, as of July 1971 no action had been taken to recover the \$12,090.

Payment to president's father

During the period March 12 to May 19, 1969, the Group's president issued four checks totaling \$1,600 to his father. We were informed by the president that the \$1,600 represented a repayment of a previous loan made by his father to the Group to cover the payroll of a Group-operated service station. The president, however, was unable to provide us with any documentation supporting the existence of the loan or any evidence of the receipt of the funds from his father.

Payment of president's personal court costs

CEP funds of \$925 were expended to pay the Group president's personal court costs, and funds of \$444 were unaccounted for. A check for \$1,369, drawn on the CEP checking account, was made payable to the Group's president. The check was dated and cashed on October 23, 1969. The check was endorsed by the president and a Group employee.

The city court of Oakland's records showed that the same Group employee paid \$300 on October 23, 1969, and \$625

on October 27, 1969, in bail fees to get the president out of jail. On May 4, 1970, the president forfeited \$625 of the \$925 bail costs

The Group's president informed us that, of the CEP funds of \$1,369, \$925 had been used to pay personal court costs for himself for such offenses as disturbing the peace, battery, and malicious mischief, the remaining funds of \$444 were not accounted for

Use of CEP funds to pay debts of
Group's non-CEP activities

In June 1970 the Group's president (who is also the Foundation's president) entered into an agreement with the vice president of the Foundation, under which the Group was to provide work-training experience to CEP enrollees. Payments totaling \$6,000 from calendar year 1970 CEP funds were made to the Group in \$2,000 increments in June, July, and August 1970.

Our review of available correspondence and discussions with the consultant to the Foundation, the Labor representative, and the OEDCI deputy director showed that work-training experience had not been provided to CEP enrollees, contrary to the terms of the agreement, and that the agreement had been entered into as a means of providing funds to the Group for the payment of outstanding Group debts incurred in 1968 and 1969 in its non-CEP activities.

The consultant provided us with a list of the Group's business creditors and the amounts paid to each subsequent to the agreement in June 1970. The list identified 18 creditors--companies involved in such businesses as sand and gravel, concrete, lumber, plumbing, and office machines--who had been paid amounts ranging from \$13 to \$750 and totaling \$4,600. We could not ascertain the Group's disposition of the remaining \$1,400 of the CEP funds received from the Foundation to pay its business expenses.

The representative of Labor's San Francisco Regional Office informed us that he had consented to the plan to use CEP funds to pay the Group's business expenses, because, although he had not been certain as to the legality of that

arrangement, he had believed that the Government had an obligation to pay those debts if the Group did not. The obligation, he stated, stemmed from the Group's relationship to the Government's CEP program. We could find no provision, however, in OEDCI's subcontract with the Group which provided that the Government had such an obligation.

Expenditures for questionable consulting services

A check dated January 18, 1971, for \$3,500 payable to the former chairman of the Group's board of directors was drawn on the Foundation's CEP account and signed by the president in payment for consulting services provided by the former chairman. The cashed check was endorsed by both the ex-chairman and the president. The president and the ex-chairman informed us that the payment had been split equally between them because the president had rendered assistance in the performance of the consulting services.

The Foundation's president notified the ex-chairman by letter dated September 11, 1970, that he was hired as a consultant to develop a program dealing with "community interdependence." The president did not specify the duties of the ex-chairman either in that letter or in a subsequent letter dated September 14, 1970, to OEDCI informing it that the ex-chairman had been hired as a consultant to assist the Foundation with the development of a cooperative-buying association. In a letter dated September 11, 1970, the ex-chairman notified the Foundation that he accepted the job offer and that he would make regular interim progress reports to the Foundation, as well as a summary report at the end of the assignment.

Both the consultant to the Foundation and the Labor representative informed us that, in their opinions, the ex-chairman's consultant arrangement had been contrived as a means of spending what would otherwise have been surplus CEP funds.

The Labor representative reported to the San Francisco Regional Office by memorandum dated January 28, 1971, that the ex-chairman's report was meaningless and appeared to have been extracted from some other source, possibly a newspaper

Disbursement to Foundation for
nonexistent accrued liabilities

On December 31, 1970, the Foundation president requested, and on February 9, 1971, received, from OEDCI a check for \$1,746 for liquidating accrued liabilities. The Foundation and OEDCI produced no evidence or documentation to support the existence of the accrued liabilities. On the same day that the Foundation received the check, the Foundation's president deposited \$1,746 into his personal saving account.

The consultant to the Foundation informed us that he had been completely unaware that the president had obtained the \$1,746. He stated that this transaction had circumvented the financial controls and accounting procedures he had established over the CEP funds when he took over the Foundation's fiscal management on February 1, 1970. He stated also that he had prepared the Foundation's final CEP invoice on March 4, 1971, at which time the Foundation had no accrued liabilities.

On February 25, 1971, we discussed this matter with the Labor representative who subsequently questioned OEDCI's deputy director concerning the check. In a letter dated March 31, 1971, the Labor representative requested OEDCI's CEP director to recover the \$1,746 from the Foundation's president, however, as of December 1971 the funds had not been recovered.

PERSONS PLACED IN JOBS WERE NOT
ENROLLED IN THE PROGRAM

OEDCI's CEP program subcontracts with the Group and the Foundation, as previously discussed, provided for the development of jobs and for the placement of persons into the developed jobs. Two of the subcontracts required the persons placed in the developed jobs to be CEP enrollees, and the remaining subcontract required CEP enrollees or CEP eligible persons to be given preference in filling the developed jobs. Labor guidelines provide that, to qualify as a CEP enrollee, a person be disadvantaged and reside in the target area.

Although it appeared that the Group and the Foundation had performed job development work by entering into service-type contracts and by hiring persons to work under such contracts, we found indications that the persons placed in the jobs developed under the three subcontracts had not been CEP enrollees.

The State of California CEP coordinator for Oakland informed us in March 1971 that no persons designated as CEP enrollees ever had worked for the Group or the Foundation or had benefited from their CEP subcontracts.

A memorandum dated October 17, 1969, from the Labor representative for Oakland to Labor's San Francisco Regional Office stated that the Group at that time had not required persons placed in developed jobs to be CEP enrollees. The memorandum stated also that, although the Group had placed some persons in jobs, the persons had not been CEP enrollees and that the Group had ignored its obligation under its CEP subcontracts. The Labor representative informed us in January 1971 that the statements made in his October 1969 memorandum were applicable also to the Foundation's performance under its 1970 CEP subcontract.

The president of the Group and the Foundation informed us that he could tell which applicants were poor just by talking to them and that he had hired them on that basis. He stated further that, after unsuccessful attempts to enroll applicants whom he had identified as being eligible into the CEP, he had abandoned the idea of having the State

of California designate persons for enrollment in the program because, since he was providing jobs to persons, the program was a success. The president provided no records indicating the number of jobs that had been developed or the number of job placements that had been made under the subcontracts.

CHAPTER 4

FINANCIAL ADMINISTRATION OF FEDERAL FUNDS

BY THE

OAKLAND OPPORTUNITIES INDUSTRIALIZATION CENTER

Our examination into the expenditures of the Oakland Opportunities Industrialization Center (OIC)--an OEDCI delegate agency--during December 1969 and August 1970 showed that

- Expenditures of \$1,285 had not been properly authorized and/or supported
- Controls had not been established over nonexpendable property.
- Non-Federal contributions had been inadequate.

The Oakland OIC is a California nonprofit corporation which began job-training activities early in 1967. During the period October 1968 through December 1970, the Oakland OIC reported expenditures of about \$1.2 million of CEP funds received under subcontracts with OEDCI. The subcontracts required the Oakland OIC to conduct preemployment,¹ basic education, counseling, and orientation programs to enhance enrollee employability.

In a letter dated November 30, 1970, OEDCI informed the Oakland OIC that it would not be funded for 1971 because of a reduction in CEP funds available for the Oakland area.

QUESTIONABLE EXPENDITURES OF FEDERAL FUNDS

Our examination into \$64,427 worth of the \$66,360 expenditures of Federal funds reported by the Oakland OIC in

¹The objectives of the Oakland OIC's preemployment program include the development of positive attitudes toward employment, fellow employees, job responsibility, and business and labor.

December 1969 and August 1970 revealed certain questionable expenditures, as shown below

<u>Expenditure</u>	<u>Amount questioned</u>	<u>Basis for questioning</u>
Consultant fees	\$ 576	Lack of supporting documents, including authorizations and invoices
Auto license	104	Expenditures not authorized by Labor for operation of Oakland OIC automobile
Travel	<u>605</u>	Travel vouchers and gasoline credit charge slips not reviewed and approved
Total	<u>\$1,285</u>	

The controller of the Oakland OIC informed us that the consultant had performed the services required but that no invoice had been received for the services. Oakland OIC officials were unable to provide us with an explanation for the auto expenditures. With regard to the travel vouchers and credit charge slips, Oakland OIC officials acknowledged the need for closer scrutiny of such items.

CONTROLS OVER NONEXPENDABLE PROPERTY

The Oakland OIC had not established accounting controls over nonexpendable property. Oakland OIC records showed that, from the inception of the program in 1967 through December 31, 1970, Federal funds of about \$80,000 had been expended to purchase equipment.

Labor has prescribed procedures relating to Government property that, among other things, require agencies which perform services to (1) maintain property record cards for equipment, (2) identify each piece of property by attaching a Federal tag to it upon its receipt, and (3) take a physical inventory at the close of each contract period and reconcile it with the property records.

Our review showed that the Oakland OIC did not maintain records for the accountable property acquired. The Oakland

OIC had to list and total individual procurement invoices to determine the amount of accountable property in its possession when the OIC program was not refunded. This task took approximately 3 months and disclosed that equipment costing about \$8,800 could not be located.

Oakland OIC officials agreed that their property management procedures were deficient.

NON-FEDERAL CONTRIBUTIONS

In accordance with the requirements of the Labor CEP contract with OEDCI, the OEDCI subcontract with the Oakland OIC required contributions of about \$94,000 from non-Federal sources. The Oakland OIC's records, however, showed that, during the subcontract period, non-Federal contributions amounted to only about \$40,000.

In a letter dated December 29, 1969, to OEDCI, the Oakland OIC executive director stated that the required non-Federal contributions had not been obtained because of (1) the anticipation by the staff of layoffs toward the end of 1969, which decreased the staff's enthusiasm for fund-raising activities, (2) rumors that the Oakland OIC would be out of business, which hampered fund-raising activities, and (3) a delay by the Oakland OIC in starting fund-raising activities. The executive director stated also that an accurate record by in-kind contributions had not been maintained.

CHAPTER 5

CONCLUSIONS ON THE OAKLAND PROGRAM

Our review showed that numerous deviations from OEO and Labor requirements existed in the administration of Federal funds for the programs administered by OEDCI and the three delegate agencies. Many of these deviations were identified also during audits made by OEO auditors, Labor auditors, and CPA firms.

OEDCI's executive director informed us that weaknesses in OEDCI's administration of the programs had occurred because OEDCI was staffed primarily with inexperienced people from the ghetto. He also stated that the correction of administrative and financial weaknesses had been slow because primary emphasis had been placed on program effectiveness and on providing services to the poor of Oakland.

Because the city of Oakland has taken over the administration of the Oakland Community Action Program, we are not making any recommendations on the deficiencies discussed in this report, but we are recommending to OEO, Labor, and HEW that consideration be given during the final audit of OEDCI to the deficiencies discussed in this report.

CHAPTER 6

FINANCIAL ADMINISTRATION OF FEDERAL FUNDS

BY THE

BERKELEY NEIGHBORHOOD YOUTH CORPS

Our examination into the city of Berkeley's administration and control over the expenditures by the Berkeley NYC program showed that the expenditures generally had been in accordance with applicable Labor regulations and guidelines and that adequate internal controls had been maintained.

Labor provided grants totaling about \$755,000 for funding the Berkeley NYC program for the period December 1967 through July 16, 1971. The city of Berkeley's disbursement of Federal funds under these grants was handled and controlled in the same manner as other city expenditures. Consequently we limited our examination to a review of the city of Berkeley's internal controls for the NYC program, following up on weaknesses disclosed in a CPA's audit report on the Berkeley NYC and testing records pertaining to program enrollees' stipend costs.

The CPA, in his audit report dated April 29, 1970, for the period December 1967 through February 1970, took no exception to reported costs but commented on the following weaknesses: (1) separate bank accounts for separate grants had not been maintained, (2) 11 enrollee stipend payments had not been supported by time and attendance reports, and (3) payments for supervisory time recorded as non-Federal contributions had not been documented adequately.

Our review showed that the city of Berkeley's internal controls were adequate and that separate bank accounts had been established for each grant.

Our random tests of stipend payments made to 47 of the 470 enrollees on the August 15, 1970, payroll indicated that, except for one time sheet which could not be located and except for one time sheet which had not been signed by the supervisor, supporting data was adequate. This was an

improvement over the previous deficiencies in time and attendance reports noted by the CPA.

With respect to inadequately supported supervisory time recorded as non-Federal contributions, supporting documentation generally was adequate but the hours recorded were excessive in some instances. The Berkeley NYC recorded in-kind non-Federal contributions for the time worked by five supervisors who were supervising the 47 enrollees included in our examination. The contributions recorded for three of the five supervisors appeared to be about \$300 in excess of the amount represented by the number of working hours reported by the supervisors. We brought this matter to the attention of the Berkeley NYC's project director who agreed that the amounts recorded were excessive, and he stated that procedures established to control the amount of in-kind non-Federal contributions recorded should have prevented the recording of these contributions.

JOHN C STENNIS MISS CHAIRMAN
RICHARD B RUSSELL GA MARGARET CHASE SMITH MA AINE
STUART SYMINGTON MO STROM THURMOND S C
HENRY M JACKSON WASH JOHN G TOWER TEX
SAM J ERVIN JR N C PETER H DOMINICK COLO
HOWARD W CANNON NEV GEORGE MURPHY CALIF
STEPHEN M YOUNG OHIO EDWARD W BROOKE MASS
DANIEL K INOUE HAWAII BARRY GOLDWATER ARIZ
THOMAS J MC INTYRE N H RICHARD S SCHWEIKER PA
HARRY F BYRD JR VA
T EDWARD BRASWELL JR CHIEF OF STAFF

United States Senate

COMMITTEE ON ARMED SERVICES
WASHINGTON D C 20510

September 19, 1970

Honorable Elmer Staats
Comptroller General of the United States
General Accounting Office
Washington, D. C.

Dear Mr. Staats:

As ranking Republican on the Senate Subcommittee on Employment, Manpower and Poverty, I share the concern of this Administration that poverty funds are correctly spent. The recent charges of fiscal irregularities in certain of the Oakland poverty organizations have been deeply disturbing to me. Both the poor who desperately require the assistance from these organizations and the taxpayers who must carry the burden have the right to expect that federal monies will be used in the manner Congress intended.

As a result, I hereby request that the General Accounting Office immediately commence a thorough audit of the Oakland Economic Development Council, Inc., each of its delegate agencies, and the Berkeley and Oakland Neighborhood Youth Corps for fiscal years 1968 and 1969. These audits should clearly indicate the manner in which all monies allocated to these organizations were expended.

Sincerely,


George Murphy

APPENDIX II

RALPH YARBOROUGH TEX CHAIRMAN
JENNINGS RANDOLPH W VA
HARRISON A WILLIAMS JR NJ
CLAIBORNE FELL RI
EDWARD M KENNEDY MASS
GAYLORD NELSON WIS
WALTER F MONDALE MINN
THOMAS F EAGLETON MO
ALAN CRANSTON CALIF
HAROLD E HUGHES IOWA

JACOB K JAVITS N
WINSTON L. PROUTY
PETER H DOMINICK COLO
GEORGE MURPHY CALIF
RICHARD S SCHWEIKER PA.
WILLIAM B SAXBE OHIO
RALPH T SMITH ILL.

ROBERT O HARRIS STAFF DIRECTOR
JOHN S FORSYTHE GENERAL COUNSEL

United States Senate

COMMITTEE ON
LABOR AND PUBLIC WELFARE
WASHINGTON D C 20510

December 17, 1970

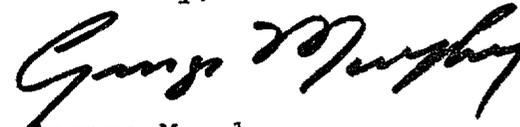
Honorable Elmer Staats
Comptroller General of the United States
General Accounting Office
Washington, D. C.

Dear Mr. Staats:

At my request, the General Accounting Office is undertaking an audit of the Oakland Economic Development Council, Inc., certain of its delegate agencies and the Neighborhood Youth Corps Programs for Oakland and Berkeley, California.

When the GAO has completed its work, I will appreciate your sending the report to Congressman Victor V. Veysey who will represent the 38th Congressional District of California.

Sincerely,


George Murphy