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RELEASED

REPORT OF THE
COMPTROLLER GENERAL
OF THE UNITED STATES

090052

Disposition Of Questions
Concerning Fiscal
Accountability Of The
States' Regional
Representative, Appalachian
Regional Commission

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APRIL 7, 1976



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

B-154503

The Honorable L. H. Fountain
Chairman, Subcommittee on
Intergovernmental Relations
and Human Resources
Committee on Government Operations
House of Representatives

Dear Mr. Chairman:

In response to your April 25, 1975, request, this report discusses alleged fiscal improprieties by the States' Regional Representative to the Appalachian Regional Commission. The alleged improprieties exclusively involved State funds and included:

- Rental of automobiles on several occasions without explaining the official purpose of the rental.
- Use of a Commission credit card for personal business.
- Delinquent filing of travel claims.
- Collecting twice for expenses incurred while in travel status.
- A general lack of fiscal control in the Office of the States' Regional Representative.

On May 16, 1975, we discussed with your office the propriety of our involvement in this matter because the questions raised appeared to involve only State funds. We later advised your office that the States' Cochairman of the Appalachian Regional Commission, in April 1975, had ordered an audit of the Office of the States' Regional Representative by a certified public accounting firm. The firm issued its report on August 26, 1975.

As requested, we agreed (1) to clarify our audit authority with respect to the alleged fiscal irregularities on the part of the States' Regional Representative, (2) to comment on the certified public accounting firm's audit, and (3) to inform your office of any other areas needing review that were identified by the certified public accounting firm.

Our general authority for examining and auditing the Appalachian Regional Commission's records is found in 40 App. U.S.C. 107(3). That provision requires the Commission to keep accurate and complete records of its transactions which shall be made available for public inspection and for audit and examination by the Comptroller General. However, we are not authorized to audit financial accounts consisting entirely of State funds.

The alleged improprieties involved financial transactions in two accounts--the States' participation account and the contingency fund account. Each account consists entirely of State funds.

We have discussed the financial accounts of the Office of the States' Regional Representative with the Director of Finance and Administration of the Appalachian Regional Commission as well as the States' Regional Representative. We have also discussed the specific questions raised with both of these individuals. In addition, we reviewed the responses made by the States' Regional Representative to questions raised by the Chairman of the Senate Public Works Committee dealing with the allegations as reported in the press.

We have also reviewed reports prepared by the certified public accounting firm concerning three reviews it has made since August 1974 dealing with fiscal activities in the Office of the States' Regional Representative. The second of these reviews, begun in April 1975, involved a detailed examination of transactions in both the States' participation account and the contingency fund account, including travel and transportation expenses incurred by the States' Regional Representative from July 1, 1972, through June 30, 1974. We discussed with representatives of the certified public accounting firm each of the alleged improprieties noted on page 1 of this letter.

The report prepared by the certified public accounting firm, resulting from its April 1975 review, states that nothing caused it to believe that the expense accounts of the States' Office were not fairly stated in all material respects. We believe that the accounting firm has adequately accounted for all travel and transportation expenses by the States' Regional Representative for the period July 1, 1972, through June 30, 1974, including those related to the specific allegations. The firm did not, in any of its three reports, identify other areas within the States' Office in need of review but did make recommendations for improving fiscal control within the States' Office. From

discussions with officials of the certified public accounting firm and our select review, we have concluded that these recommendations have been largely implemented.

The appendix to this letter (1) outlines the fiscal responsibilities of the Office of the States' Regional Representative, (2) discusses the alleged improprieties on the part of the States' Regional Representative, (3) summarizes the scope and recommendations of the certified public accounting firm's three fiscal reviews of the Office of the States' Regional Representative, and (4) discusses the implementation of the recommendations by the Office of the States' Regional Representative.

As requested by your office, we did not obtain comments from the States' Regional Representative.

As your Office agreed, we are sending a copy of this report to Congressman John B. Breckinridge, pursuant to his request for a similar review and to the Chairman, Senate Committee on Public Works.

Sincerely yours,


ACTING Comptroller General
of the United States

BACKGROUND

Title I of the Appalachian Regional Development Act of 1965, Public Law 89-4, established the Appalachian Regional Commission, consisting of a Federal Cochairman and 1 member from each of the 13 participating States in the Appalachian region. Serving as counterpart to the Federal Cochairman is the States' Cochairman.

The Office of the States' Regional Representative, hereafter referred to as the States' Office, was not mandated by the above legislation, but resulted from State initiative. The States' Office functions under the direction of the States' Regional Representative, who is intended to be the functional equivalent of the States' Cochairman and the collective voice for the States between Commission meetings. The cost of maintaining this office has been met entirely by State contributions since its creation in 1965.

FINANCIAL RESPONSIBILITIES OF THE OFFICE
OF THE STATES' REGIONAL REPRESENTATIVE

From 1965 through fiscal year 1968, no direct financial responsibility was delegated to the States' Office. Remittances by the States to meet their obligation for funding 50 percent of the administrative expenses of the Commission, as well as the total cost of operating the States' Office, were forwarded directly to the Commission's Finance Office. The Finance Office maintained the financial accounts associated with these remittances, including the expense accounts of the States' Office.

In fiscal year 1969 the States delegated authority for managing States' funds to the States' Office. It was decided that future States' contributions toward meeting administrative expenses of both the States' Office and the Commission would be remitted to the States' Regional Representative to purchase certificates of deposit. The certificates have been purchased to mature periodically, enabling the States' Regional Representative to make advance monthly disbursements to the Commission to meet the aforementioned administrative expenses.

These monthly disbursements are deposited in a State participation account maintained in the U.S. Treasury; recordkeeping is provided by the Commission's Finance Office. In addition to the States' share of the Commission's administrative expenses, the expenses of the staff of the States' Office for travel and transportation, equipment and office supplies, and consultant fees and salaries are paid from this account.

Excessive State contributions, as well as interest which accrues on the certificates of deposit, are maintained in a contingency fund account under the control of the States' Regional Representative. This fund is maintained to meet unforeseen requirements of the States' Office, such as expenses associated with the conduct of meetings or other activities for the Council of Appalachian Governors.

In summary, from fiscal year 1969 through the present, the States' Regional Representative has had direct fiscal responsibility for:

- Billing and receiving States' contributions.
- Depositing States' funds in a bank and purchasing certificates of deposit.
- Making periodic disbursements to the Commission for joint administrative costs.
- Paying, when appropriate, for special States' meetings or States' Office expenses.
- Maintaining general administrative control of States' Office financial matters.

ALLEGED IMPROPRIETIES ON THE PART OF
THE STATES' REGIONAL REPRESENTATIVE

Questions concerning the propriety of certain expenses and practices related to the States' Regional Representative were raised by the Director of Finance and Administration of the Commission. The questions concerned transactions in the States' participation account and the contingency fund account and did not involve Federal funds. These questions were subsequently reported in a series of newspaper articles.

The questions involved the rental of automobiles by the States' Regional Representative on several occasions without explaining the official purpose of the rental, his use of a Commission credit card for personal business, his delinquent filing of travel claims, his possible double collection for expenses incurred while in travel status, and the general lack of fiscal control in the States' Office. The Director of Finance and Administration of the Commission presented these questions to representatives of certain Appalachian States on June 24, 1974. On June 30, 1974, the States' Regional Representative gave State representatives his written explanation to the questions.

At hearings before the Senate Public Works Committee in the spring of 1975 concerning the extension of the Appalachian Regional Program, the Committee Chairman requested clarification of these questions. The States' Regional Representative provided the Chairman with his statement on May 2, 1975, as well as documents related to the questions. The nature of the questions and the explanation provided by the States' Regional Representative to both the States and the Senate Public Works Committee are discussed below.

Rental of automobiles without
adequate explanation

On three separate occasions automobiles were rented by the States' Regional Representative and the total cost (about \$375) was charged to the States' participation account. No voucher or other explanatory memorandum was provided to indicate the official purpose of the rentals.

Another question related to the rentals concerned a travel voucher submitted by the States' Regional Representative for the period October 12 to 14, 1972. Reimbursement totaling \$13.04 was claimed for using his personal automobile for States' Office business. This expense was questioned because it was incurred during one of the occasions when he had a rented automobile.

The States' Regional Representative stated that the automobiles were rented for the general use of the States' Office when his family automobiles were inoperative. In justifying the automobile rentals, he stated that Commission regulations provide that the compensation of the States' Regional Representative be the same as that of the Federal Cochairman. He went on to state that the Federal Cochairman has full use of the Commission car, including commuting to and from home and, while he did not mind using his own car regularly for the office, he did not believe it appropriate to spend personal funds for a rented car in the above situations.

Regarding the \$13.04 claimed on the travel voucher, the States' Regional Representative recognized this was an error and reimbursed the States' participation account accordingly. The certified public accounting firm, in its reconciliation, also noted the error in the travel voucher as well as the remittance by the States' Regional Representative.

Use of Commission credit card
for personal business

The States' Regional Representative rented two trucks-- one for the period July 31 to August 11, 1972, and another for August 1 to 11, 1972. The total cost was \$465.72. The trucks were rented using the Commission's credit card and the bill paid through the States' participation account. On January 9, 1973, the States' Regional Representative reimbursed the States' participation account.

In his explanation to the States and the Senate Public Works Committee, he stated that on the Saturday morning when he went to pick up the trucks, he discovered that a cash deposit was required (\$300 for each truck, or \$600). Not having that amount of cash in his possession and having an expensive moving crew waiting, he said he used the Commission's credit card to eliminate the cash deposit requirement. He stated that no impropriety was involved in the action although he has no intention of repeating it.

He recognized that he did not repay the bill when it first came in and although he could not remember why, he did say that it was a most difficult time in both his personal and office schedules. He stated that he presumed that he was out of the office when the bill first came in and that it escaped his attention through the Christmas season.

In a discussion with the States' Regional Representative, we noted that the vouchers for the truck rentals indicate that the trucks were rented on a Monday and Tuesday rather than on a Saturday morning. He was aware of this and said that in attempting to reconstruct his expenses and trying to recall what transpired 2 years prior, he had made a mistake of stating that the rentals were made on Saturday rather than on Monday and Tuesday as the vouchers indicate. However, he stated that his explanation for using the Commission's credit card was correct.

In its August 26, 1975, report to the States, the certified public accounting firm noted the personal use of the Commission credit card by the States' Regional Representative and recommended that use of Commission credit cards be limited to Commission business. In a December 9, 1975, memorandum to the States concerning the disposition of the recommendations, the States Regional Representative stated that the current practice of the States' Office is to limit the use of Commission credit cards to Commission business.

Delinquent filing of travel claims

Schedules prepared by the certified public accounting firm show that the States' Regional Representative was over 3 years behind in processing certain travel vouchers. This matter relates directly to one of the questions raised by the Director of Finance and Administration for the Commission. The question concerned the propriety of the States' Regional Representative having an outstanding cash advance of \$1,346 but being reimbursed for more than 30 travel vouchers exceeding \$2,300 from June 12, 1973, through June 24, 1974. According to the Director of Finance and Administration, this cash advance was not reduced and the States' Regional Representative was reimbursed the amount claimed on each voucher from the States' participation account.

The States' Regional Representative has stated that he was clearly remiss in not filing his travel claims. He cited personal factors outside the job; an increased office workload; and the virtual elimination of office assistance, including the death of his personal secretary, as factors contributing to his delinquency in filing his travel claims.

Regarding the question raised by the Director of Finance and Administration, there is an implication that the States' Regional Representative had the use of \$1,346, interest free, for over a year. From our review of schedules prepared by the accounting firm, this is a misleading implication. In May 1973 the States' Regional Representative received \$1,500 which was recorded on his travel advance ledger card. The schedules prepared by the accounting firm show that the States' Regional Representative had approximately \$1,000 in outstanding travel claims yet to be processed when he received the \$1,500. In June 1973 \$154 was processed against the \$1,500 "advance," leaving a balance of \$1,346. According to the States' Regional Representative, work pressures resulted in his other travel claims remaining in arrears until August 1974.

The accounting firm analyzed for a 2-year period (July 1, 1972, to June 30, 1974) the travel advance ledger card of the States' Regional Representative by dates of travel rather than by the dates the travel vouchers were submitted. The firm reported on August 26, 1975, that by restating the travel advance account of the States' Regional Representative by date of travel, the outstanding cash balance was \$500.54 from May 29, 1973, to October 28, 1973, and \$47.36 from October 29, 1973, through January 12, 1974. According to this report, during the remainder of the 2-year period, the States' Regional Representative had a balance due him from the States' participation account.

Collecting double for expenses
incurred while in travel status

Two questions raised by the Director of Finance and Administration for the Commission concern possible double collection by the States' Regional Representative for expenses incurred while in travel status. The first relates to a \$509.88 reimbursement from the contingency fund account for a trip to Atlanta, Georgia, on September 17 to 20, 1972. This reimbursement included charges for lodging. The Director of Finance and Administration noted that the States' Regional Representative also submitted a travel voucher for this trip and that per diem was claimed in the amount of \$81.25, which was paid out of the States' participation account. The second question concerns the possibility of some travel costs being paid from the States' participation account and also by the National Area Development Institute.

Responding to the first question, the States' Regional Representative stated that expenses totaling \$509.88 were incurred during a Commission meeting in Atlanta, Georgia, which he initially paid for with a personal charge card and was later reimbursed by check from the contingency fund account. Included in this amount was the cost of a bedroom-sitting-room suite, where the sitting room served as a place for the Appalachian States' Representatives to confer on Commission subjects outside the usual meeting time.

The States' Regional Representative explained that he used the suite for his own sleeping quarters to avoid the extra expense for a separate sleeping room. He stated that he claimed only the minimum \$25 per diem on his expense account (\$25 a day for 3-1/4 days=\$81.25 shown on the travel voucher) instead of the \$40 or more to which he would be entitled by listing all actual expenses connected with this type of meeting. He noted that no tips or other expenses were claimed on his travel voucher.

Regarding the possibility of some travel costs being paid by both the States' participation account and the National Area Development Institute, the States' Regional Representative said that:

- None of the expenses paid by the Institute were duplicated in any reimbursement he received from the States' participation account.
- As the States' Regional Representative, he sometimes makes a trip which involves multiple stops and purposes, and that while expenses associated with such trips could be charged to States' Office business, he

obtains reimbursement from other sources when appropriate and repays the States' participation account accordingly.

--He has applied this general policy in his relationship with the National Area Development Institute and attributed the question raised to his lateness in filing the appropriate expense vouchers.

In his written response to both the States and the Senate Public Works Committee, the States' Regional Representative listed those expenses for which he was reimbursed by the National Area Development Institute and his subsequent reimbursement to the States' participation account. The reimbursement to the States' participation account was verified by the certified public accounting firm in its review.

General lack of fiscal control in the States' Office

In the material provided the Senate Public Works Committee, the States' Regional Representative recognized a general accounting problem in the States' Office: the late filing of expense accounts. According to this material, the States' Regional Representative, in 1972, recognized the need to improve record and reporting procedures; however, mitigating circumstances including the death of his personal secretary, other changes in his office staff, and an especially heavy workload for him delayed this effort. Standards have now been developed incorporating recommendations made by the certified public accounting firm. These recommendations and their implementation are discussed on pages 9 to 12.

In September 1973 the States' Regional Representative asked the Director of Finance and Administration for the Commission to help him update certain records. The intended scope of this review remains a point of contention between the States' Regional Representative and the Director.

At an informal meeting on June 24, 1974, with representatives of certain Appalachian States, the Director of Finance and Administration was concerned about several apparent delinquencies and irregularities by the States' Regional Representative. The nature of these questions was previously discussed.

On July 30, 1974, the representatives of the Appalachian States met with the States' Regional Representative to review the questions raised by the Director of Finance and Administration. The representatives of the Appalachian States accepted the explanation of the States' Regional Representative

as sufficient to conclude that there was no intent to misappropriate funds. The States' Regional Representative was admonished, however, for not keeping his records in better order and for not filing his travel expense vouchers promptly.

It was further concluded at the July 30, 1974, meeting that a better system of financial records in the States' Office be promptly established. The representatives of Kentucky, Mississippi, and West Virginia were designated as a subcommittee to employ a public accounting firm to install a new system. In early August 1974 the certified public accounting firm was retained to review the financial recordkeeping in the States' Office and to develop a more adequate system.

The results of that review, including the recommendations made by the public accounting firm, are discussed below. Also discussed are the scope and findings of the review made by the public accounting firm in connection with the April 1975 request of the States' Cochairman, as well as the findings of the accounting firm incident to its examination of receipts and expenditures of the States' Office for fiscal year 1975.

NATURE, SCOPE, AND FINDINGS OF
FISCAL REVIEWS OF THE STATES' OFFICE
MADE BY A CERTIFIED PUBLIC ACCOUNTING FIRM

The certified public accounting firm has made three reviews related to fiscal activities of the States' Office. The first review, in August 1974, was of a general nature wherein the accounting firm was in essence acting as a consultant for making recommendations to improve the recordkeeping within the States' Office. On the second occasion, in April 1975, the firm made a detailed review of certain financial transactions involving the contingency fund account and the States' participation account for the period July 1, 1972, through June 30, 1974. The final review, in the fall of 1975, was an audit of the statement of receipts and expenditures and changes in balances of accounts within the States' Office for fiscal year 1975. The results are discussed below.

August 1974 review

On November 15, 1974, the accounting firm submitted a report to the Appalachian States' Representatives dealing with fiscal accountability in the States' Office. This report states that, in accordance with the August 1974 instructions of the States' Representatives, the firm made a general review of the records and the supporting documents

used in preparing the statement of receipts, expenditures, and balances of the States' Office for the year ended June 30, 1974. Based on its review, the accounting firm offered recommendations related to recordkeeping procedures, operating accounts, travel vouchers, and reports with respect to the States' Office. Some of the specific recommendations are highlighted below.

- Establish formal double entry books and reporting formats for the contingency fund account and the States' participation account.
- Establish in writing the types of receipt and disbursement transactions to be entered in the contingency fund account or States' participation account.
- Improve internal control by limiting the amount of single-signature checks or establishing other controls for checks over a certain amount.
- Require that travel vouchers be submitted for reimbursement within a reasonable time after the travel costs were incurred.
- Establish in writing the procedure for approving travel vouchers that do not comply with existing Commission travel regulations.
- Prepare periodic reports for moneys received or disbursed on behalf of the Appalachian States. These reports should be reviewed and compared with the budgeted amounts and any significant variances explained.

April 1975 review

In April 1975 the States' Cochairman directed the public accounting firm to review expenses incurred by the States' Office from July 1, 1972, through June 30, 1974. The expenses were charged to either the contingency fund account or the States' participation account. The expenses reviewed included those related to travel and transportation, temporary personnel and other services, office supplies and expenses, equipment, consultant services, printing and reproduction, and meetings. On August 26, 1975, the accounting firm issued a report to the Appalachian States on the results of its review.

In its report, the accounting firm stated that it had examined disbursements made from the contingency fund account

and ascertained that the canceled checks agreed with the records maintained by the States' Office. The report further stated that the firm had obtained direct confirmation from the contingency fund banks of the balances of cash and investments as of June 30, 1973 and 1974, and determined that the confirmed balances agreed with the records of the States' Office or with reconciliations prepared by personnel of that office.

Regarding transactions charged to the States' participation account, the accounting firm stated that it examined copies of all travel vouchers, airline bills, rental car bills, and other supporting documents on file in the Office of the Director of Finance and, on a test basis, examined the original documents on file with the Department of Commerce for overall completeness and proper approvals. The firm noted that the Federal travel voucher used by the Commission's personnel did not require the traveler to indicate the trip's purpose, nor did existing procedures require the States' Regional Representative's travel expenses to be independently approved.

The accounting firm requested additional information from the States' Regional Representative on certain transactions charged to both the contingency fund account and the States' participation account. Generally, the transactions questioned lacked adequate documentation or the purposes of the transactions needed to be clarified.

The requested information was provided to the accounting firm by the States' Regional Representative and subsequently furnished to the States' Management Committee for its review. An August 22, 1975, letter to the public accounting firm from the Chairman of the States' Management Committee stated that it reviewed the propriety of the expense accounts and found them completely in order.

In its report, the accounting firm stated that one principal problem which it encountered was the untimely filing of travel vouchers by the States' Regional Representative. The firm recommended that all travel vouchers be submitted for processing within a reasonable time after the actual travel and that the trip's purpose be noted on the voucher. The accounting firm also noted that certain travel-related expenses had been paid from both the contingency fund account and the States' participation account. It suggested that a policy be adopted to define the type of disbursements to be made from the contingency fund account and that all travel advances be obtained from the States' participation account.

Fall 1975 review

At a meeting on June 4, 1975, representatives of the 13 Appalachian States agreed that a recurring annual audit of the States' Office accounts be undertaken beginning with the fiscal year ending June 30, 1975. The certified public accounting firm which conducted the two reviews previously cited performed this audit.

In a report dated October 28, 1975, the accounting firm prepared an audited statement of the receipts and expenditures and changes in balances of accounts within the States' Office for the fiscal year ending June 30, 1975. No significant problems about the accounting records and accounting procedures within the States' Office were cited in connection with this review.

IMPLEMENTATION OF RECOMMENDATIONS MADE
BY THE CERTIFIED PUBLIC ACCOUNTING
FIRM BY THE STATES' OFFICE

A December 19, 1974, resolution of the Appalachian States' Representatives and a memorandum dated December 9, 1975, to the Appalachian States from the States' Regional Representative discusses actions taken on the public accounting firm's recommendations for improving fiscal control within the States' Office. It appears from our review of the resolution, memorandum, and records currently maintained in the States' Office, together with discussions with representatives of the public accounting firm, that the recommendations have been largely implemented.

In accordance with one of the accounting firm's recommendations, the resolution sets forth the types of disbursement transactions to be entered in the contingency fund account and State participation account. The resolution also limits the disbursements of the States' Regional Representative to:

- Checks made out to the Appalachian Regional Commission in connection with the joint State-Federal administrative costs of the Commission and the total administrative costs of the States' Office.
- Checks or documents necessary to effect the transfer of funds for purchasing or liquidating certificates of deposit.
- Checks of less than \$5,000 to be drawn only against the contingency fund account.

The December 9, 1975, memorandum to the States, prepared by the States' Regional Representative, lists the recommendations made by the public accounting firm and states that most have been implemented. We verified the implementation of several of the recommendations, including those pertaining to (1) the establishment of double entry ledgers, (2) the preparation of reports comparing budgeted expenses with actual expenditures, and (3) the justification on travel vouchers submitted by the States' Regional Representative for expenses incurred which exceed the rates authorized by the Federal travel regulations.

A representative of the accounting firm confirmed, in a discussion with us, that prior recommendations made by his firm for improving fiscal accountability of the States' Office have been largely implemented.