DOCUMENT RESUME

05893 - [B1246209] RELEASED

[Activities of the Economic Opportunities Development Corporation of San Antonio and Bexar County, Texas]. HRD-78-106; B-130515. April 27, 1978. Released May 10, 1978. 6 pp. + enclosure (17 pp.).

Report to Rep. Henry B. Gonzalez; by Gregory J. Ahart, Director, Human Resources Div.

Issue Area: Income Security Programs (1300).
Contact: Human Resources Div.
Budget Function: Income Security: Public Assistance and Other Income Supplements (604).
Organization Concerned: Community Services Administration; Economic Opportunities Development Corp. of San Antonio and Bexar County, TX.
Congressional Relevance: Rep. Henry B. Gonzalez.
Authority: Comprehensive Employment and Training Act of 1973.

Programs of the Economic Opportunities Development Corporation of San Antonio, Texas, need operating improvements, including more effective delivery of services, better compliance with program requirements, and the collection of sufficient data for reporting program accomplishments. The Alcoholic Rehabilitation Program benefited participants, but there was inadequate documentation related to group counseling sessions. The Adult Manpower Program placed 1,478 of 2,560 participants in jobs after training. Employability development plans need to be more comprehensive. The Public Service Employment Program provided employment opportunities, but some employment was not public-service related; some participants remained in subsidized jobs for up to 2 years. Other programs reviewed were the Alternate Care Program, which contract was terminated, and the Barrio Betterment and Development Corporation. In relation to the corporation's financial and administrative activities: information concerning alleged improper political activities was turned over to the Justice Department; the financial management system needs to be strengthened to provide internal control over expenditure of funds; and a leasing company was not established in accordance with procedures. The Director of the Community Services Administration should monitor financial and administrative activities. The Director of the National Institute on Alcohol Abuse and Alcoholism should more closely monitor data collection procedures. The Secretary of Labor should monitor the Adult Manpower Program to ensure followups on participants. (HTW)

6209

UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

RELEASED 5/10/78

HUMAN RESOURCES DIVISION

B-130515

April 27, 1978

The Honorable Henry B. Gonzalez
House of Representatives

Dear Mr. Gonzalez:

On April 7, 1977, you requested a review of the activities of the Economic Opportunities Development Corporation of San Antonio, Texas, and on December 15, 1977, we sent you an interim report on our work. We have completed our assessment of recent financial and administrative activities of the Development Corporation and developed information on the effectiveness of its Community Alcoholic Rehabilitation, Adult Manpower, Public Service Employment, and Alternate Care Programs and the Barrio Betterment and Development Corporation. The results of our review are summarized below and detailed in the enclosure.

DEVELOPMENT CORPORATION FUNDING

The Development Corporation is a private nonprofit community action agency whose principal function is to operate 19 antipoverty programs supported primarily with Federal funds. As of March 31, 1977, it had a budget of $9.2 million (from both Federal and non-Federal resources) to operate these programs.

The Development Corporation uses its funds to provide social services to the economically disadvantaged of the City of San Antonio and Bexar County. Its success in meeting its program responsibilities depends largely on efficiently applying its resources to program goals, reliably reporting the results of its activities to funding agencies, and obtaining and maintaining broad-based support from the local community. The Development Corporation's administrative support function is funded at $500,000 a year by a grant from the Community Services Administration.

OPERATION OF ANTIPOVERTY PROGRAMS

The Development Corporation's antipoverty programs need several operating improvements, including more effective means of delivering services, better compliance with program administration requirements, and the collection of sufficient data for reporting program accomplishments.

The Community Alcoholic Rehabilitation Program, funded by the Department of Health, Education, and Welfare's National Institute on Alcohol Abuse and Alcoholism, has received $518,500 from the Institute during the last 3 years of operation ended March 31, 1978, to provide ongoing counseling services to low-income persons and their families affected by alcoholism problems. The Institute has been developing definitive criteria for evaluating the quality of services provided by alcoholic rehabilitation programs as discussed in our report to the Congress entitled "Progress and Problems in Treating Alcohol Abusers" (HRD76-163).

During the year beginning April 1, 1977, the Development Corporation proposed to operate its alcoholic rehabilitation program to serve about 400 participants monthly through three rehabilitation centers. Our tests of records and discussions with Development Corporation officials revealed that the centers have been serving between 350 and 400 participants monthly. We interviewed a random sample of 21 participants and reviewed related case records. All those interviewed were eligible for the program and were satisfied with the benefits they were receiving.

In comparing rehabilitation center data on services provided to data being reported through the Development Corporation's management information system, we found that the Development Corporation reported 188 group counseling sessions as being held between March 1977 and August 1977 while local centers reported only 65 sessions. We were unable to reconcile the differences from available records. Development Corporation officials advised us that inadequate documentation by local centers had been a problem, but they were unable to explain the differences in reported group counseling sessions.

The Adult Manpower Program, funded by the Department of Labor under title I of the Comprehensive Employment and Training Act of 1973 (CETA), is to develop and create job opportunities and to provide needed training, education, and other assistance to the economically disadvantaged or unemployed to enable them to secure and retain jobs. The City of San Antonio is designated as the prime sponsor for a manpower program covering a 12-county area. Under subcontract with the city, the Development Corporation operates three CETA centers, which serve San Antonio and Bexar County. For the year ended September 30, 1977, the Development Corporation received $3.7 million for operating the centers which recruit, verify eligibility, and place program participants in jobs.

The Department of Labor regional criteria for grant approval and for evaluating CETA program effectiveness are directed primarily to job placements and training accomplished. Although expected rates for job retention have not been established, Labor regional officials advised us that grantees are required to followup on the status of program participants 30 days after they leave the program.

During a recent 8-month period records showed the program attempted to provide employment to 2,560 participants. Of these, 1,478 were placed in jobs upon completion of CETA training and 1,010 were still employed 30 days after being placed in jobs. From a random sample of 33 participants who left jobs during the first month, we found that in most cases followup files did not state why the jobs terminated. In 12 cases where termination reasons were recorded, participants often stated they were leaving for other employment.

A December 1976 study by the Department of Labor and the City of San Antonio found that employability development plans prepared for participants needed to be more comprehensive in order to identify their training needs. The Development Corporation was acting to correct these problems at the time of our review.

The Public Service Employment Program (titles II and VI of CETA), operated by the Development Corporation, provides employment and manpower training for unemployed persons, primarily through jobs in the Development Corporation and in other social service agencies in the San Antonio area. Participants are paid directly with program funds to work for managing organizations in anticipation that such employment may ultimately lead to unsubsidized employment.

Between May 1975 and September 1977, the Development Corporation received about $765,000 to operate the program for the city and served 168 participants. At the end of September 1977, 85 participants had been hired into unsubsidized positions or found other employment, 47 had resigned or were discharged, and 36 were still working in subsidized jobs. Although the program provided needed employment opportunities, in some instances employment did not appear to be public service related and in others participants remained in subsidized jobs for as much as 2 years. Development Corporation officials were attempting to terminate contractual relationships with one service organization at the time of our review, and Labor regional officials were revising their regulations to limit public service employment terms to 18 months in consonance with proposed legislation presently being considered by the Congress.

The Alternate Care Program, operated by the Development Corporation, was funded by a grant of about $1 million from the Department of Health, Education, and Welfare through the Texas State Department of Public Welfare. The program was to provide 1,000 aged, blind, or disabled persons with services in their homes to enable them to remain independent of institutional care. The Development Corporation's contract was terminated as of June 30, 1977, after a State evaluation identified inadequate recordkeeping, reporting, and homemaker services being provided. The State continued the program using its own employees in San Antonio.

Barrio Betterment and Development Corporation is a social service agency providing primarily referral information and some direct services to economically disadvantaged individuals needing food, shelter, or other assistance. This program is funded by a $130,350 contract with the Development Corporation for the year ended March 31, 1978. Funds are provided from a Community Services Administration grant to the Development Corporation.

We tested the services provided by Barrio during the month of July 1977 and found that about 65 percent of Barrio's program costs were for referring people to other agencies and the rest were for providing direct services. During the month 16 Barrio employees referred 494 clients to the food stamp and welfare offices, churches, and other local organizations.

DEVELOPMENT CORPORATION FINANCIAL AND ADMINISTRATIVE ACTIVITIES

As requested, we have reviewed the Development Corporation's financial and administrative activities. Specifically, we assessed

--selected transactions recorded in the accounts of the programs we reviewed to determine whether the Development Corporation's financial management system provides adequate controls over Federal funds,

--Development Corporation and Barrio records relating to allegations of improper political activities by officials of the organizations, and

--financial records of a private nonprofit leasing company established by the Development Corporation to provide services to its programs.

Information obtained concerning alleged improper political activities of Development Corporation and Barrio employees has been turned over to the Justice Department. The financial solvency of the Development Corporation was weak; in August 1977 the local bank in which the Development Corporation maintained its principal program accounts terminated their relationship due to significant overdrafts. Also, the Development Corporation's financial management system needs to be strengthened in several areas to provide more effective internal control over the expenditure of program funds. (See enc. I, pp. 9 to 14.)

In March 1976, the Development Corporation established a private nonprofit leasing company to provide vehicles and office equipment to the Development Corporation. The leasing company was controlled by the Development Corporation's board, and any excess revenues generated were to be used to further the Development Corporation's programs.

By May 31, 1977, the leasing company had received advance payments of $110,798 from leasing equipment to the Development Corporation's programs. With these funds the leasing company acquired 13 vehicles, 31 typewriters, and a variety of office furniture. However, the leasing company was not established in accordance with CSA procedures governing financial interests of community action agencies.

RECOMMENDATIONS

We recommend that:

--The Director of the Community Services Administration closely monitor the Development Corporation's financial and administrative activities and require its officials to divest themselves of management responsibility in the leasing company.

--The Secretary of Health, Education, and Welfare require the Director of the National Institute on Alcohol Abuse and Alcoholism to more closely monitor the Development Corporation's procedures to ensure that data collected on its alcoholism program accomplishments is accurate and useful.

--The Secretary of Labor, in cooperation with the City of San Antonio, closely monitor the Development Corporation's Adult Manpower Program to ensure that followups on participants placed in jobs are made periodically throughout the year following job placement and that reasons for loss of employment are documented and analyzed to identify program areas needing improvement.

As agreed with your office, we obtained the views of Development Corporation officials and Federal agency regional officials responsible for programs administered by the Development Corporation.

As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report for 30 days. At that time we will send copies to interested parties, including the Department of Justice for consideration in its ongoing investigation, and make copies available to others upon request.

Sincerely yours,

Gregory J. Ahart
Director

Enclosure

 ENCLOSURE

REVIEW OF PROGRAM AND ADMINISTRATIVE ACTIVITIES

OF THE ECONOMIC OPPORTUNITIES

DEVELOPMENT CORPORATION

INTRODUCTION

The Economic Opportunities Development Corporation of San Antonio and Bexar County, Texas, is a community action agency officially designated by the San Antonio City Council and Bexar County Commissioners' Court to administer Federal, State, and local funds for antipoverty programs. As of March 31, 1977, the Development Corporation had a budget of $9.2 million in Federal and non-Federal funds to operate 19 antipoverty programs and provide funding to 4 neighborhood-based, multipurpose service agencies. About $500,000 was budgeted for administrative support activities, and the other $8.7 million was budgeted for programs and delegate agency funding. Most of the Development Corporation's funding comes either directly in the form of grants from Federal agencies or indirectly through State and local government agencies receiving Federal funds. The Development Corporation's administrative support function, which provides administration, personnel management, purchasing, and accounting support to its programs, is funded by the Community Services Administration (CSA).

We focused on assessing the extent to which (1) the Development Corporation's programs were being operated in accordance with applicable guidelines and were achieving the desired results, (2) its financial management systems provided adequate control over Federal funds, and (3) its personnel leave practices were consistent with applicable Federal regulations. In reviewing Development Corporation program operations, we looked at the (1) Community Alcoholic Rehabilitation Program, (2) Adult Manpower Program, (3) Public Service Employment Program, (4) Alternate Care Program, and (5) Barrio Betterment and Development Corporation, a multipurpose antipoverty agency.

In evaluating the Development Corporation's financial management and personnel activities, we reviewed its accounting and personnel management systems and tested selected transactions to determine whether there were adequate internal controls and whether related Federal grant expenditures were reasonable and allowable. We also reviewed the financial records of a corporate affiliate created and financed by the Development Corporation.

Information relating to alleged political activities of the Development Corporation's employees was referred to the Justice Department.

PROGRAMS OPERATED BY THE DEVELOPMENT CORPORATION

Community Alcoholic Rehabilitation Program

The Development Corporation operates this program through a grant from the Department of Health, Education, and Welfare's National Institute on Alcohol Abuse and Alcoholism to provide counseling, recovery, and supportive services to low-income persons and their families who are affected by alcoholism or alcohol abuse. The Development Corporation had established three program centers to serve the east, central, and west sections of San Antonio. The program was in the 5th year of a 6-year project which began on April 1, 1973, and had received $5[illegible]8,500 from the Institute during its last 3 years of operation.

For the year beginning April 1, 1977, the Development Corporation received $139,848 to serve an average of 400 clients per month. At the time of our review, our tests of records and discussions with Development Corporation officials showed that it was serving between 350 and 400 clients per month. We interviewed a random sample of 21 program participants concerning the effectiveness of the program in helping them with their problems and reviewed related case records. Those contacted were eligible and generally satisfied with the benefits provided.

At the time of our review, the Institute was developing new criteria for evaluating the quality of alcoholic program accomplishments. An Institute official informed us that a data base was being established and would be used to develop the needed evaluation standards. In January 1976, about 3 years after the program began, the Institute started compiling data from individual programs all over the United States. The Institute official stated that when enough data is accumulated, evaluation criteria will be developed and disseminated to all programs. Until such standards are completed, contributions of these programs are assessed quantitatively.

In April 1975, Institute officials evaluated case records of the alcoholism program and found that the names of persons who did not have a drinking problem and who had not been treated by the program were being reported.

Their evaluation report stated that some program staff members, at the urging of the then project director to build up caseloads, had reported the names of clients of other alcoholism agencies and, in some instances, had asked friends or relatives of program clients for the use of their names.

In comparing data on services provided by the three centers to data being reported in the Development Corporation's internal management information system, we found differences in reported group counseling sessions that we could not reconcile. Program records showed that 65 group counseling sessions were held between March and August 1977, while Development Corporation reports showed 188. A Development Corporation study made after our review also reported discrepancies in counseling session records and attributed them to inadequate documentation by the local centers. The Development Corporation has instructed the program director to conduct staff training sessions to correct the problem.

Adult Manpower Program

This program is funded under title I of the Comprehensive Employment and Training Act of 1973 (CETA) to provide training, education, and other services to the unemployed and underemployed to enable them to secure and retain employment at their maximum capacity. Further, the program is to develop and create job opportunities for program participants.

The City of San Antonio is designated as prime sponsor for a Department of Labor-funded manpower program that covers a 12-county area. Under contract with the city, the Development Corporation operates three CETA service centers serving Bexar County. For the program year ended September 30, 1977, it received about $3.7 million to operate the program, whose goal was to achieve a total enrollment of 4,884 participants.

The program attempted to provide employment to 2,560 participants for the first 8 months, and program records showed that 1,478 participants were placed in jobs. In 12 cases for which termination reasons were recorded, participants often said they were leaving for other employment.

Job placement and retention

Although the Department of Labor has not established general rates of expected job retention, CETA requires that program sponsors report on the duration of employment of program participants for at least a year after they leave the program The Development Corporation accumulates data on the status of program particpants up to 30 days from program separation. Of the 1,478 participants placed in jobs, 468 (32 percent) were no longer employed 30 days later.

The 30-day followups being made by the Development Corporation were not effectively identifying program weaknesses and areas for improvement. To determine why participants placed in jobs were no longer employed after 30 days, we reviewed the records of 33 participants selected at random. In 21 cases, the followup forms did not state why the participants left their jobs. In the other 12 cases, the participants often said they were leaving for other employment, but the records did not show whether such employment was training related.

Employability development plans

The Texas Employment Commission, as a Development Corporation subcontractor, is responsible for preparing individual employability development plans for program participants. Under CETA requirements the plans are designed to compare the qualifications necessary for particular jobs with the participants' current qualifications so that needed training can be identified and provided.

A joint study in December 1976 by the Labor Department and the City of San Antonio identified the employability development plans as a problem, indicating that generally no actual plans were developed for the participants. It stated that the plans were often slanted to the type of training offered, not to participants' needs. The Development Corporation's executive director said actions were being taken to improve the quality of employability development plans.

Relationship of job placements to program training

The program records showed that about 34 percent of program participants were being placed in jobs unrelated to the training received. Our analysis covered 1,478 participants placed in jobs during an [illegible]-month period. Of this number, 1,398 received some training, but 481 were identified in the records as obtaining employment not related to their training.

We traced the job planning, training, and placement history of 23 participants who were enrolled in a CETA-supported trade school in April 1976--midway in the prime sponsor's contract period. Records showed that 11 of them were not enrolled in training directly related to their primary employment goals and only 5 obtained employment related to the training they received. The following are brief histories of some of the particpants.

- --A participant with experience as a cashier and an ultimate employment goal of a cashier or checker was enrolled in furniture upholstery training. After 4 months of school, the particpant found employment as a dietary aide.
- --A participant previously employed as a dispatcher was enrolled in welding school, consistent with his ultimate employment goal. After 4 months of training, the participant found employment as a dance instructor.
- --Another participant enrolled in the upholstery course was unable to obtain employment in this occupation because openings were few and experience was required.

These conditions indicated inadequate planning in matching training programs with the job market or insufficient job development and placement efforts. Federal regulations for CETA program sponsors require that training be designed for occupations in which skill shortages exist and for which there is reasonable expectation of employment.

ENCLOSURE

Public Service Employment Program
(CETA titles II and VI)

This Department of Labor-funded program is to provide public service employment and manpower training programs for the unemployed in such fields as education, child care, health care, transportation, and other areas of human and community improvement. Participants are paid directly with program funds to work in public service jobs (primarily in the Development Corporation and its programs) which are intended to lead to unsubsidized employment.

Funding for the Development Corporation program, which began in May 1975, comes through the City of San Antonio acting as the administrative arm of the Alamo Manpower Consortium, the prime sponsor and grantee. Between May 23, 1975, and September 30, 1977, the program had received funding of $765,022; funding for the current year ending September 30, 1978, is $727,112.

Through September 30, 1977, the Development Corporation reported that it had served 168 people, of whom 36 were working in subsidized jobs. Fifty were eventually hired by public service agencies, and the others either found other jobs or left their public service jobs for other reasons, as shown below.

Public Service Employment Program
Status of Participants Enrolled
Between May 1975 and September 1977

Still in subsidized employment program as of October 1, 1977	36
Employed by public service agency (unsubsidized employment)	50
Found own employment	35
Resigned public service employment	31
Terminated from public service employment	16
	168

Program legislation states that participation is intended to be transitional and lead to unsubsidized employment. As of October 1, 1977, 20 participants who entered the program before July 1976 were still being paid with program funds. Fifteen of them had remained in subsidized employment for over 2 years. According to Labor regional officials, regulations were being rewritten to limit program participation to 18 months consistent with proposed legislation presently under consideration by the Congress.

Four program participants were placed in jobs with local labor unions, including the American Federation of State, County, and Municipal Employees and a local garment union. A fifth participant was placed with a local foundation, but the Development Corporation later questioned whether the organization was oriented to social services. Labor officials told us that local unions do not qualify as public service agencies that can be supported by CETA workers, although social services performed at unions by CETA workers do qualify. The Development Corporation said it was considering the services performed for the unions as social in nature. Union typing was among the primary duties of one participant. We were not able to interview the others who had left CETA employment. The Development Corporation was negotiating to terminate its CETA contract support of the local foundation as of December 31, 1977, and the City of San Antonio was considering an appeal by the local foundation to continue funding at that time.

Alternate Care Program

The Alternate Care Program is funded through State welfare offices under title XX of the Social Security Act, as amended, to provide aged, blind, and disabled persons with services in their homes that will enable them to remain independent of institutional care. The Development Corporation entered into a contract with the Texas State Department of Public Welfare to hire "homemakers" to provide services in the San Antonio area beginning in March 1977. The program, which had an approved budget of $977,444 for March through June 1977, was intended to provide about 46,000 service hours each month to 1,000 clients.

In May 1977, the State Welfare Department evaluated the program and found that (1) clients were not receiving or were dissatisfied with scheduled services, (2) the Development Corporation was reporting and paying for more homemaker service hours than were actually provided, (3) the Development Corporation had not provided the matching funds it previously certified would be available, and (4) the field operations manager for the program was incarcerated in May 1977 for 15 years after losing on appeal from an earlier conviction. The contract was terminated on June 30, 1977, following the evaluation findings, and the State Welfare Department continued the program using its own employees in San Antonio.

The State evaluation found that the Development Corporation was reporting the hours the clients were scheduled to receive if the actual hours provided were less.

In 7 of 17 cases tested by the State, the clients reported receiving less than the scheduled service hours and less than the hours reported on the billings. In the 10 other cases, more than one client lived at a single residence, and the billing documents reported the services provided to each as if they were provided separately, even though in most cases the hours provided were the same as if there were only one person in the household. For example, the scheduled service hours for one couple were 20 hours each 5-day week. At this rate, the maximum hours that should have been billed were 92 for March and 84 for April. However, the State was actually billed for 185 hours in March and 157 hours in April.

In explaining the reporting discrepancies, the Alternate Care Program director indicated that the program was following procedures similar to those used in the Head Start program, in which the Development Corporation had billed for enrolled participants regardless of whether they attended class.

Under the program, the needs of the clients were to be assessed in terms of the specific tasks and number of in-home service hours necessary to care for the client. Schedules were then worked out for homemakers to provide the services. In a telephone survey of 120 randomly selected clients, State evaluators found that 34 (28 percent) either were dissatisfied with the services received or felt that the homemakers did not spend the assessed time in their homes. Development Corporation officials believed that much of the dissatisfaction came from clients who were used to being provided more services under a prior program but whose services under this program were limited to food preparation and house cleaning because of funding limitations.

Barrio Betterment and Development Corporation

Barrio Betterment is a community-based, social service agency providing primarily referral information and some direct services to economically disadvantaged persons needing food, shelter, and other assistance through five centers located in the near south and west areas of San Antonio. It was being funded by a 10-month, $130,350 contract with the Development Corporation through March 31, 1978, from CSA funds and $125,729 in revenue sharing funds for a 9-month period in 1977 from the City of San Antonio. However, the contract with the city had terminated.

Development Corporation officials indicated that a primary function of Barrio Betterment is to contact potential clients through outreach efforts by employees of the five neighborhood centers, evaluate client needs, and refer them to social service agencies with the resources to meet those needs. The goal was to refer about 6,000 people during the program year.

In July 1977 about 65 percent of Barrio's average monthly budget of $27,000 was spent referring people to other agencies, and the rest was spent on direct services. At that time, Barrio had 34 employees, 16 of whom were involved in referral services for 494 individuals, averaging about 1.9 referrals per staff-day. Other employees provided direct services, such as senior citizens' activities, youth services, and employment training. The Barrio had no established criteria for measuring performance of these services.

DEVELOPMENT CORPORATION FINANCIAL MANAGEMENT

In May 1977, the Development Corporation established separate accounts in one bank for individual program funds and authorized the bank to transfer funds among the accounts as necessary. In effect, the bank considered all of the Development Corporation's separate accounts as one account, offsetting overdrafts in some accounts with available funds in others.

In financing its portion of a follow-on Alternate Care Program funded through the Department of Health, Education, and Welfare and the Texas Department of Public Welfare, the Development Corporation used an overdraft to cover its 25-percent share of matching funds for the program.

Alternate Care Program expenses totaled $825,445. Under its contract with the State, the Development Corporation was to finance 25 percent of the program expenses, about $206,361, with local matching funds.

The Alternate Care Program account eventually became overdrawn by more than $280,000 in April 1977. The Development Corporation's accounts became overdrawn on an overall basis at various times during June, July, and August 1977, at one time reaching $307,389. The bank obtained a $250,000 promissory note from the Development Corporation as additional security for overdrafts. However, on August 17, 1977, the bank decided to terminate its business relationship with the Development Corporation and paid the Development Corporation $7,058, which represented the net amount available in all the accounts at that time.

In closing out the accounts, the bank applied about $257,000 from the Head Start program account to the Alternate Care Program overdraft and made 22 other transfers of about $248,000 to cover overdrafts in other program accounts. These transfers were later recorded as interfund liabilities on Development Corporation accounting records. The executive director identified a number of sources from which he proposed to obtain the funds and indicated that the Development Corporation had opened accounts in another bank. In December 1977, Development Corporation officials told us that they were still trying to obtain approval for interfund transfers needed to clear the program interfund liabilities.

<u>Accounting systems and internal controls</u>

CSA regulations require that grantee program accounting systems provide accurate, current, and complete disclosure of the financial results of each grant. In an examination of 230 expense transactions, we found that 38 (about 17 percent) had been misclassified. For example, carpeting purchased for the Head Start program was recorded at different times as "Plumbing Maintenance Expense," "Supplies Expense," and "Vehicle Maintenance Expense." Misclassification of expenses had been identified as a problem in past audit reports by independent accountants.

CSA regulations require that grantee financial records indicate the source and applications of program grant funds, including data on assets, liabilities, obligations, and expenditures. During a 5-month period beginning in February 1977, no transactions were recorded in the Development Corporation's detailed accounts receivable ledgers. The Development Corporation's comptroller said that the accounting staff had gotten behind in posting accounts receivable transactions and had not had a chance to catch up. Also not recorded in the detailed accounts receivable ledgers were $30,000 in advances paid to CETA trainees in December 1976 and January 1977. According to Development Corporation officials, the advances represented allowances normally paid by the Texas Employment Commission in Austin. The officials advised us that, because the Commission's computer had broken down in December 1976, they paid the trainees with the stipulation that they repay the Development Corporation when they received their checks from the Commission. After our review was completed, the officials noted that all but $1,300 had been collected and that steps had been taken to collect the unpaid amount.

CSA regulations require that grantee financial management systems include procedures for determining the allowability and allocability of costs in accordance with applicable cost principles. Development Corporation procedures for allocating common costs to various programs were poorly documented and of questionable validity. The Alternate Care Program, for example, was charged $4,949 as a portion of the rental cost of copying facilities. Copier rental invoices showed that these copies had actually cost $2,339. Officials of the Development Corporation said that its policy had been to charge a flat rate of 3 cents per copy to the programs which could afford it, but that effective December 1977 it would begin charging for copies at actual cost.

Grant program expenditures

Grant cost principles limit allowable costs to those that are ordinary and necessary for operation of the grant-funded program. In some cases, grant expenditures did not directly relate to program objectives and supplies and services were purchased in quantities exceeding the operating requirements of the grants involved. Other costs charged to grants were not recorded in accordance with basic accounting principles or grant cost guidelines. The discussion below illustrates the types of problems we identified.

The Head Start program

This program is to provide educational, nutritional, health, and social services to the children of low-income families. Head Start funds were used to purchase quantities of supplies far in excess of program year requirements. Of $75,793 spent for supplies during the year ended March 31, 1977, $32,620 (about 43 percent) was recorded as spent during the last month. Development Corporation officials stated that they had instructed program staff to avoid future stockpiling of supplies and that a plan was implemented to buy needed supplies on a quarterly basis.

After the close of the program year, the Development Corporation charged the Head Start program with expenses totaling $18,708, which represented a portion of the salaries of administrative employees paid from the CSA grant. The Head Start grant agreement did not provide for indirect costs, and the Development Corporation had not maintained documentation showing the time the CSA-funded employees worked directly in the Head Start program.

According to the Development Corporation's board president, allocation of staff costs to operating programs is a problem that the agency has had to contend with, since CSA does not allow for indirect support costs for other programs from CSA grant funds. He said that, in order to be able to administer the various programs, an alternative funding method has had to be develope which involved negotiating with different funding sources to allow charges for Development Corporation staff assistance to the various programs. To remedy the problem we identified, he said a plan would be implemented immediately to document the staff members' time allocated to the different programs and the supporting justification for the work.

Adult Manpower Program

Under this program, day care for children of participants enrolled in training is provided. While regulations require that day care providers paid from CETA funds comply with State licensing requirements, 25 of the 30 sample payments we examined were made to unlicensed care providers, who were usually relatives of the trainees. Two of the payments were made for individuals no longer enrolled in the program and eligible for benefits. For example, a payment was made in February 1976 for a trainee who left the program in November 1975.

During the 3-year period ended September 30, 1977, this program also paid $165,780 to a local physician for 5,526 physical examinations. Development Corporation personnel stated that during the first 2 program years all participants were routinely given physicals. Although medical services designed to remove barriers to an individual's entry into the job market are allowable program costs, we do not believe that providing routine physicals for persons who have no identified medical barrier to employment is a reasonable and necessary program expense. The executive director agreed, stating that the practice of giving routine physicals would be discontinued.

Payments for unused annual leave

Development Corporation regulations state that employees may be compensated for as much as 120 hours of unused annual leave if their employment or contract is terminated. There is no provision for payment for unused leave to employees not being terminated.

Between October 1975 and July 1977, 14 continuing employees of the Development Corporation were paid $20,130 for 2,654 hours of unused annual leave, including two payments totaling $4,894 to the executive director; two payments totaling $2,533 to the associate director for administration; and two payments totaling $2,618 to the Early Childhood Development program director. In contrast, 14 of the 21 full-time employees who terminated between January and May of 1977 apparently received no compensation for 486 hours of unused leave valued at $1,703.

The Development Corporation's board president advised us that the policy of paying employees for accumulated excess annual leave before termination had been used only sparingly and only for persons who, because of excessive workloads, could not take the leave they had earned. In view of our findings, however, he said he was recommending that the board adopt a policy to preclude payment of such leave before termination.

The executive director received payments for 120 hours of unused leave in January 1976 and for 300 hours in April 1977. At the time of the latter payment, his leave records showed him to have 319 hours of unused annual leave. It was discovered later that he had a balance of only 199 hours when he received payment for 300 hours, and his leave records were adjusted so that 101 hours previously charged to annual leave were redistributed to sick leave and compensatory time. Records dating back to 1974 were altered to accommodate this revision. The board president told us that the alterations were made solely to correct previous errors in the executive director's leave records.

<u>Leasing company created by Development Corporation</u>

On March 3, 1976, the Development Corporation established an independent corporation to lease vehicles and office equipment to Development Corporation programs. The leasing company's charter states that its income (1) is to be used for charitable, religious, scientific, literary, education, or economic development purposes and (2) could serve either as local matching funds required by Federal grant agreements or to continue operating programs should outside funding stop. Establishment of this company was not consistent with applicable CSA directives.

The incorporators and original members of the leasing company's board of directors were also members of the Development Corporation's board, and the executive director of the Development Corporation held the same position with the leasing company.

Having no private investors, the leasing company obtained its initial capital by collecting $110,798 payment in advance for leasing vehicles, office furniture, and equipment to federally funded Development Corporation

ENCLOSURE

programs. By May 31, 1977, the leasing company had acquired 13 vehicles, 31 typewriters, and a variety of office furniture. Acquisition of the property was financed through 1-year advance lease payments from the Development Corporation's programs.

Additional capital was obtained in 1976 from three interest-free loans totaling $400,000 made by the Development Corporation. These loans were made from funds advanced from CSA.

Two loans of $25,000 each made in May and June 1976 were used to pay purchase invoices and operating expenses of the leasing company. The loans were partially repaid in September and October 1976, but a $5,000 balance remained outstanding until February 1977. A third loan of $350,000 made in October 1976 was used to purchase a 1-month interest-bearing certificate of deposit, on which the leasing company earned $1,438. The loan was repaid in November 1976, and the earned interest was retained by the leasing company.

During February and March 1977, the Development Corporation made two loans totaling $38,439 to the leasing company. The first loan for $32,085 was used to repay outstanding loans from the Development Corporation's title X account and to refund a portion of the lease payments previously charged to that program. How the second loan for $6,354 was used could not be determined from the leasing company's records. Both 1977 loans were still outstanding at the time of our review.

Grant administrative guidelines provide that, when goods and services charged to a grant are acquired from an entity under common control with the grantee, the prices paid must be consistent with those available on the open market. However, some lease fees paid to the leasing company were higher than commericially available rates and, in fact, exceeded the costs of acquiring the rental property.

For example, four vans, acquired for $6,200 each, were leased to the Alternate Care Program for 1 year at $6,791 each. Compared to commercial lease rates, the Alternate Care Program was overcharged by about $26,000 on vehicles leased for $61,410 and by about $1,800 on typewriters leased for $10,713. Although the program budget stated that bids would be obtained for all equipment leased for over $50, we found no evidence that any bids were obtained before these items were leased from the leasing company.

In April 1977, the leasing company signed a contract to purchase a downtown office building for $425,000, which provided for a $3,000 earnest money deposit to lease space to the Development Corporation and other tenants. This contract was not completed, and the executive director said the proposed transaction was being held in abeyance.

Federal program funds were [illegible] to finance accounting, purchasing, and administrative work performed for the leasing company by the Development Corporation's employees. Additionally, legal and architect fees related to the proposed purchase of an office building by the leasing company were paid directly from the Development Corporation's CSA grant funds. We were unable to identify any Development Corporation grant or contract whose purpose included providing either financing or operating assistance to the leasing company. According to the Development Corporation, it was seeking a refund from the leasing company for a portion of the architect fees paid out of CSA funds.

CSA and Development Corporation comments

Development Corporation officials maintained that the accounting and internal control weaknesses we found resulted because the accounting department did not keep pace with the agency's rapid growth. The officials indicated that revised written procedures adopted in April 1977 should improve the accuracy of accounting data, strengthen internal controls, and improve purchasing procedures. Furthermore, according to the officials, actions will be taken to correct the problems pertaining to inadequate administrative salary allocation procedures and stockpiling of Head Start supplies.

CSA regional officials said they were not fully aware of the nature of the relationship between the Development Corporation and the leasing company. They said that, although CSA has provided for setting up such corporations, interlocking boards of directors would not normally be permitted to insure separate and independent

ENCLOSURE

accountability for transactions between the two corporations.

A responsible CSA regional official was aware of the $350,000 loan in 1976 and had been told by the Development Corporation that the loan had been repaid and the earned interest had been used for a Development Corporation program.

The regional staff agreed that it did not appear proper for Development Corporation staff to perform leasing company administrative functions. They believed that the Development Corporation had not followed CSA guidelines in leasing and purchasing transactions with the leasing company, and they advised us that CSA did not allow prepayment of leases.

In responding to concerns about the propriety of its relationship with the leasing company, the Development Corporation's board approved a series of recommendations to eliminate the interlocking directorates and provide the leasing company with a separate director and purchasing agent. The Development Corporation believed its annual leasing charges to programs were reasonable compared to monthly leasing rates in the San Antonio area. We found Development Corporation rates to be higher than other annual rates available in the San Antonio area.