



UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D C 20548

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MANPOWER AND WELFARE
DIVISION

March 7, 1974

Mr. Robert L. Trachtenberg
Deputy Assistant Secretary for Grants
and Procurement Management
Department of Health, Education,
and Welfare
Washington, D.C. 20201

Dear Mr. Trachtenberg.

The General Accounting Office is reviewing the grant and contract programs of the Department of Health, Education, and Welfare (HEW) aimed at developing Health Maintenance Organizations. As part of this review, we are examining grantees' financial management systems to ensure that adequate accounting controls exist and that grant funds are being used for intended purposes.

This letter deals only with the results of our financial review at the Abnaki Health Council (Abnaki), Claremont, New Hampshire. The matters contained herein have been discussed with HEW staff at the Boston Regional Office and are being furnished for your information and comment.

BACKGROUND

Abnaki was formed in September 1970 to plan and develop a regional system of health care delivery for a 41-town area of about 77,000 people. From September 1970 until June 1973, Abnaki operations were financed with \$26,437 in non-Federal funds and \$641,529 in Federal funds. The detail of the Federal funds is shown on the following page.

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<u>Agency</u>	<u>Description</u>	<u>Period Covered</u>	<u>Amount</u>
New England Regional Commission (NERC) ¹	Contract to plan a regional acute care facility	February 5, 1971 to August 31, 1971	\$ 25,000
HEW	Grant to develop a Health Main- tenance Organiza- tion (HMO)	July 1, 1971 to June 30, 1972	\$167,679
HEW	Continuation of HMO grant	July 1, 1972 to June 30, 1973	\$161,136
HEW	Grant to develop a Family Health Center (FHC)	July 1, 1972 to June 30, 1973	\$287,714
Total Federal funds			<u>\$641,529</u>

In April of 1973, Abnaki applied for \$47,746 and \$373,578 to continue the HMO and FHC grants. HEW disapproved both applications because Abnaki was not achieving program goals. Accordingly, Abnaki ceased operations on June 30, 1973. At that time, the HEW Audit Agency had not audited Abnaki's Federal grants.

FINDINGS

Abnaki's accounting and internal control systems were inadequate to protect the interests of the Federal Government and to ensure that grant funds were spent for intended purposes. As a result:

- Some expenses were charged to both the NERC contract and the first HMO grant because Abnaki's accounting system did not provide for matching expenses with funding sources. Consequently, the Federal Government was overcharged \$10,035. The HMO grant was also overcharged \$233 for payroll taxes and health insurance.
- Expenditures of \$5,469 were improperly paid from Federal funds because Abnaki's non-Federal funds had been spent.

¹The New England Regional Commission was established under Title V of the Public Works and Economic Development Act of 1965 (42 U.S.C. 3181) to promote economic development in the New England states.

--The former Executive Director received \$10,750 in excess of amounts earned because of inadequate internal controls over disbursements, failure to comply with the Standardized Government Travel Regulations in the absence of an established (written) travel policy, and failure to use the imprest system for petty cash. As of January 17, 1974, he still had not repaid \$3,550.

--Most expenses for travel and entertainment were not adequately documented and some were unreasonably high in comparison with expenses authorized for Federal employees traveling under the Standardized Government Travel Regulations.

1. Dual charges

From September 1970 to May 1971, Abnaki's financial records consisted only of two checkbooks and a cash disbursement register. Although a general ledger was established in May 1971, expenses were still not matched with fund sources. As a result, certain expenses in July and August 1971--the period during which the NERC contract and the HMO grant overlapped--were charged to both agencies as shown below.

<u>Category</u>	<u>Expenses Incurred</u>	<u>Expenses Charged</u>		
		<u>HMO Grant</u>	<u>NERC Contract</u>	<u>Total</u>
Payroll	\$5,577	\$5,577	\$ 5,313	\$10,890
Payroll taxes	160	160	494	654
Other costs ¹	<u>4,125</u>	<u>4,125</u>	<u>4,228</u>	<u>8,353</u>
	<u>\$9,862</u>	<u>\$9,862</u> ²	<u>\$10,035</u> ²	<u>\$19,897</u>

We could not determine which of the two agencies was over-charged because Abnaki did not match expenses with a funding source. In addition to these duplications, Abnaki's charges to the first HMO grant for payroll taxes and health insurance were \$233 more than actual expenses.

¹Consultant fees, travel, public education materials, subscriptions, utilities, and rent

²Difference of \$173 due to some salaries being charged to the HMO grant at gross and to NERC contract at net, an error in determining payroll taxes charged to the NERC contract, and an expense charged twice to the NERC contract.

2. Unallowable expenses paid with grant funds

Expenses of \$5,469 were paid with grant funds although they were not allowable under the terms of the grants. From September 4, 1970 to June 30, 1971, Abnaki received \$26,437 from non-Federal sources. Our analysis showed that only \$366 of these funds remained as of June 30, 1971. However, the financial statements prepared by a certified public accountant (CPA) for the year ended August 31, 1971--Abnaki's first year of operation--erroneously showed a balance of \$6,637 in an account entitled "unexpended non-Federal funds."

Although Abnaki charged the expenses to this account, payments were actually made from Federal funds because the non-Federal funds had been nearly exhausted. Details of the expenses that were not allowable under terms of the grants follow:

<u>Description</u>	<u>Amount</u>
Equipment expenses in excess of approved budget	\$3,375
Travel expenses in excess of approved budget	747
Expenses for architectural services	1,000
Contribution to 314(b) agency	500
Miscellaneous entertainment expenses	<u>213</u>
Total unallowable expenses	\$5,835
Less: Paid from non-Federal funds	<u>366</u>
Unallowable expenses paid from Federal funds	<u>\$5,469</u>

3. Lack of adequate accounting controls

Because Abnaki did not (1) have adequate internal controls over payments by check, (2) comply with Standardized Government Travel Regulations in the absence of an established (written) travel policy, and (3) use an imprest system for petty cash control¹, the former Executive Director received from Federal funds \$10,750 more than he was entitled to during the period July 1, 1971 to February 28, 1973.

¹Under the imprest system, checks drawn to replenish a petty cash fund must be supported by receipts or other documentary evidence.

A CPA brought the lack of adequate accounting controls to the attention of Abnaki's Executive Committee after it had directed that a detailed audit be performed. The CPA's audit disclosed that through February 28, 1973, the former Executive Director had received \$11,684 more than he was entitled to because of.

Excess of salary received over salary earned	\$ 6,827
Excess of travel advances and reimbursements over substantiated expenses	3,341
Unsupported petty cash expenses	<u>1,516</u>
Total excess payments received	<u>\$11,684</u>

The former Executive Director signed a promissory note for this amount. He subsequently submitted travel vouchers for \$934, reducing the excess amount received to \$10,750. After making restitution of \$7,200, he still owed \$3,550 when he resigned on June 1, 1973. Although Abnaki obtained a legal judgment against the former Executive Director in September 1973, none of the \$3,550 had been repaid as of January 17, 1974.

The former Executive Director reviewed invoices, authorized their payment, and controlled payments by check. He also approved and issued travel advances, approved travel vouchers, was the custodian of the petty cash fund and signed salary advance checks for himself. Checks were required to be signed by two of the following people--the Executive Director, the President or the Secretary-Treasurer. The Secretary-Treasurer generally used a facsimile signature stamp and the former Executive Director had a duplicate of this stamp.

In practice, the former Executive Director was able to write salary and travel advance checks to himself and to write checks to replenish petty cash without substantiation and without the approval of anyone else. The effects of this procedure are discussed below.

Unearned salary payments - Except for \$229, the unearned salary payments of \$6,827 were received by the former Executive Director between July 1, 1972 and February 28, 1973. Salary advances of \$5,000 in September 1972 and \$1,200 in February 1973 and a dual salary payment in February 1973 accounted for most of the unearned amount. (See Attachment for details.)

Questionable travel advances - Abnaki never had a written travel policy and did not use written travel orders. Procedures to account for travel advances were not established until September 27, 1972.

Twenty-six of the thirty travel advances from July 1, 1971, to February 28, 1973, were made to the former Executive Director.

During this period he received travel advances totaling \$7,207 and ultimately submitted travel expense vouchers of \$4,800 (including the \$934 noted on page 5), leaving unliquidated travel advances of \$2,407. There was no apparent justification for some of the advances. For example, the former Executive Director received a travel advance of \$1,000 on March 6, 1972, and subsequent advances of \$100 each on March 22 and 30, 1972. His expense voucher for March 1972 showed expenses of \$224 for local travel mileage and meals.

Similarly, he received an advance of \$1,050 on January 26, 1973, and another of \$200 on January 31, 1973. His expense voucher for February 1973 showed expenses of \$228, consisting of local travel mileage and meals and one overnight trip to Framingham, Massachusetts.

Unsupported petty cash disbursements - The former Executive Director was the custodian of the petty cash fund. Abnaki did not use the imprest system until September 13, 1972. The CPA's working papers showed that from September 1970 to September 1972, petty cash expenditures of \$1,516 were not supported by expense vouchers.

4. Questionable travel expenses

As mentioned above, Abnaki did not have a written travel policy and did not use written travel orders. Although HEW policy requires grantees without an established (written) travel policy to follow the Standardized Government Travel Regulations, Abnaki did not do so. Employees were reimbursed for actual expenses except that mileage was reimbursed at fixed rates. The former Executive Director performed most of the travel and approved all travel expense vouchers including his own. A limited review of travel expenses showed that

- travel expense vouchers did not show the purpose of the trip. Consequently, there is no assurance that the expenses were incurred for grant purposes, and

- expenses were not adequately supported or appeared questionable.

Following are examples of unsupported or questionable travel expenses.

- a. Abnaki paid the following lodging expenses (for the former Executive Director) that appear unreasonably high in comparison with the \$25 total per diem in lieu of subsistence usually authorized a Federal employee.

<u>Date</u>	<u>Hotel/Motel</u>	<u>Number of Nights</u>	<u>Nightly Rate</u>
September 23, 1971	Sugarbush Inn Warren, Vt.	1	\$56.00
April 9-10, 1972	Jefferson Hotel Washington, D.C.	2	\$35.00
April 12, 1972	Ritz Carlton Hotel Boston, Mass	1	\$32.00
May 17-18, 1972	Ritz Carlton Hotel Boston, Mass.	2	\$62.00
June 15, 1972	Sugarbush Inn Warren, Vt.	1	\$70.00
November 12-15, 1972	Holiday Inn Atlantic City, N.J.	4	\$76.00

b. The former Executive Director's travel expense voucher covering his trip to Atlantic City, New Jersey, on November 12 to 15, 1972, included meal charges of \$55.25 on November 14 and \$47.90 on November 15. There was no indication of who the meals were for or whether they involved Abnaki business.

CONCLUSIONS

Because Abnaki's accounting system and related internal controls were inadequate, the Federal Government incurred unnecessary costs of \$19,287, as summarized below:

<u>Description</u>	<u>Amount</u>
Duplicate charges	\$10,035
Excess payroll taxes and health insurance	233
Unallowable expenses paid with grant funds	5,469
Excess payments received by the former Executive Director	<u>3,550</u>
Total	<u>\$19,287</u>

Abnaki's accounting system did not provide for matching expenses with the related fund source. As a result, some of the same expenses were charged to two agencies and other expenses were paid from Federal rather than Abnaki's non-Federal funds.

Abnaki's internal controls broke down, allowing one individual--the former Executive Director--to write salary and travel advance checks to himself without prior approval. The former Executive Director also

was custodian of the petty cash fund and was able to write checks for petty cash without substantiation. Although two signatures were required on checks, this control was circumvented by using a facsimile signature stamp. Consequently, the former Executive Director was able to divert Federal grant funds to his personal use through salary and travel advances and petty cash.

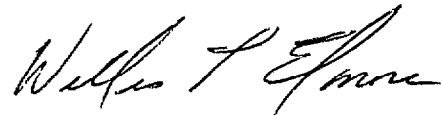
In addition, because Abnaki did not comply with the Standardized Government Travel Regulations in the absence of an established (written) travel policy, excessive Federal grant expenses were incurred for travel.

In summary, we believe that before grants are awarded there should be some assurance that prospective grantees have adequate accounting systems with appropriate internal controls to protect the interests of the Federal Government. This could be done by requiring prospective grantees to obtain a certification of the adequacy of their accounting systems from an independent accountant, as the Office of Economic Opportunity required, or from the HEW Audit Agency. We also believe that grants should be audited periodically to ensure that (1) grantees' accounting and internal control systems are operating effectively, (2) adequate records are being maintained, and (3) grant funds are being adequately controlled, and expended only for grant purposes in accordance with Federal grant policies.

Although the findings discussed in this letter deal only with one location, we are bringing them to your attention at this time because we believe that they indicate the need for management policies which would provide for preaward assessment of a prospective grantee's accounting system and for appropriate audit coverage after the award has been made. We plan to develop these matters more fully in our report on the review of HEW grant and contract programs aimed at developing Health Maintenance Organizations.

We would appreciate your comments on these matters within 60 days from the date of this letter. We would be pleased to discuss them with you further if you desire.

Sincerely yours,



Willis L. Elmore
Assistant Director

Attachment

EXCESS SALARY PAYMENTS
RECEIVED BY EXECUTIVE DIRECTOR

<u>Month</u>	<u>Date</u>	<u>Description</u>	<u>Salary Payments</u> <u>Amount</u>	<u>Net Salary</u> <u>Earned</u>	<u>Excess Salary</u> <u>Payments</u>
July 1972	1	Salary Advance	\$ 600.00		
	11	Salary Advance	500 00		
	21	Salary Advance	500 00		
			<u>1,600 00</u>	\$ 1,300.99	\$ 299 01
August	4	Salary Advance	800 00		
	14	Salary Advance	600 00		
			<u>1,400 00</u>	1,300 99	99 01
September	5	Salary Advance	5,000 00	1,300 99	3,699 01
October	13	Salary for October	1,300 99	1,300 99	- 0 -
November	11	Salary for November	1,300 99	1,300 99	- 0 -
	30	Salary for December	1,300 99	1,270 17	30 82
December	27	Salary for January	1,367 66	1,270 17	97 49
January 1973	26	Salary for February	1,172 66	1,016 02	156 64
February	6	Salary Advance	1,200 00		
	9	Salary for bi-weekly period ending 2/16/73	546.51		
	23	Salary for bi-weekly period ending 3/3/73	469 51		
			<u>2,216 02</u>	<u>- 0 -</u>	<u>2,216 02</u>
Totals July 1, 1972 to February 28, 1973			<u>\$16,659 31</u>	<u>\$10,061.31</u>	<u>\$6,598 00</u>
Excess Salary Payments prior to July 1, 1972					<u>229 14</u>
Total Excess Salary Payments					<u>\$6,827 14</u>