



UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

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MANPOWER AND WELFARE
DIVISION

FEB 25 1975

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Dr. Cecil Yarborough
Regional Commissioner of Education
Department of Health, Education,
and Welfare
Region IV, Room 544, 50 Seventh Street
Atlanta, Georgia 30323

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Dear Dr. Yarborough:

In response to a congressional request, we obtained information concerning the use of grant funds awarded by the Office of Education (OE), Department of Health, Education, and Welfare, to Durham College, Durham, North Carolina. These grants were for the operation of eight higher education programs during fiscal year 1974. The total authorization for the grants was \$660,000. We obtained detailed information on the Upward Bound and Special Services programs and limited information on the other six programs. ⁵⁵ 4257

We found no evidence that the college used Federal funds for other than OE programs, however, the college did follow a number of financial management practices that were contrary to OE guidelines. These practices resulted in (1) expenditures being reported to OE that were incorrect, (2) funds being spent in excess of authorized amounts for two programs, (3) payroll expenditures not being clearly identified in the records, and (4) expenditures for indirect expenses that exceeded the amounts authorized for the Special Services and Upward Bound programs.

REPORTING AND USE
OF FEDERAL PROGRAM FUNDS

Reporting program expenditures

Special grant conditions require the college to report to OE unobligated funds from the prior year that are to be used in the succeeding budget period. OE allocates funds for the succeeding year using quarterly financial reports furnished by the college. For the fiscal year ended June 30, 1974, the college incorrectly reported expenditures for the five programs in our test. Expenditures for Strengthening Developing Institutions and Special Services were overstated by a total of \$13,770 while expenditures for Cooperative Education, College Library Resources, and Upward Bound were understated by a total of \$21,969.

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The incorrect reporting for fiscal year 1974 impacted on funds allocated for fiscal year 1975. For example, Upward Bound was allocated \$23,778 of carryover funds for fiscal year 1975 based on reported expenditures of \$42,972. The actual expenditures, however, based on college records were \$63,107, which would have reduced carryover funds to \$3,643 for this program.

The foregoing discrepancies in reporting could possibly have resulted from poor practices by the college in maintaining records on checking accounts. For example:

- Check stubs frequently did not show the balance of funds available.
- Bank statements were not consistently reconciled.
- Several check stubs and related checks could not be located.

Use of grant funds

The college initially deposits Federal funds for OE's higher education programs in one bank account. Funds are then transferred, as needed, to separate bank accounts for each of the eight OE programs. Any unobligated funds may be used in the succeeding budget period if the expenditures are for the purposes and in support of the objectives defined in the grant and approval is obtained from OE.

The college transferred \$620,053 to separate bank accounts for operation of the eight OE programs through June 30, 1974. The transfers to five of the eight program accounts exceeded the grant authorizations by about \$18,000. Failure to adhere to grant authorizations can result in grantees incurring obligations or making expenditures in excess of amounts authorized. For example, actual expenditures, according to college records, exceeded the grant authorizations by \$1,834 for two of the five programs--Cooperative Education and College Library Resources. OE guidelines state that total Government costs for performance of any grant shall not exceed the amount set forth in the grant award.

PAYROLL EXPENDITURES NOT CLEARLY IDENTIFIED

OE requires grantees to maintain records that clearly identify project expenditures. College records did not always identify the individual salaries or other types of expenditures when funds were transferred from the Upward Bound and Special Services bank accounts to the college's payroll account.

At our request, college officials prepared a schedule to show the amount transferred monthly for each employee from the Upward Bound and Special Services Programs. In reconciling the information provided with actual payments to the staff and instructors working on the programs, we

noted that one instructor who taught classes attended wholly or in part by Upward Bound and Special Services students was paid \$7,100 from Strengthening Developing Institution funds. Such a practice points to the need for the college to clearly identify the purpose for which the various program funds are to be used when they are transferred to the college's payroll account.

PROGRAM FUNDS USED FOR INDIRECT EXPENSE
EXCEED AUTHORIZED GRANT AMOUNT

OE grant terms for the Special Services and Upward Bound programs limit Federal participation in indirect costs to 8 percent of total Federal direct costs excluding equipment. In fiscal year 1974 the college incurred indirect costs of \$5,260 and \$8,098 for the Special Services and Upward Bound programs respectively. Using the above OE guideline the maximum indirect costs authorized for Special Services was \$3,351 and \$4,365 for Upward Bound. The indirect expenses for these programs incurred by the college during fiscal year 1974 represented 12.6 and 14.8 percent of total direct costs less equipment, respectively.

RECOMMENDATIONS

To insure proper handling of funds that may be granted in the future, OE should:

- Require the college to submit corrected financial reports to show actual expenditures for the fiscal year ended June 30, 1974, so that the fiscal year 1975 grants can be adjusted.
- Ensure that the college adheres to OE regulations and properly accounts for and reports program expenditures.

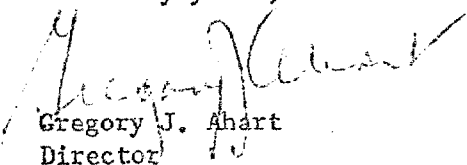
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Formal comments were not obtained from OE or college officials. We have, however, discussed the above matters with these officials.

We appreciate the cooperation and assistance extended to our representatives and would appreciate being advised of corrective actions taken or planned. If you have any questions, we will be glad to discuss them with you or your representatives.

Copies of this letter are being sent to the Honorable Jesse A. Helms, United States Senate; the Assistant Secretary for Education, the Commissioner of Education, the Assistant Secretary Comptroller, Department of Health, Education, and Welfare; and the President of Durham College.

Sincerely yours,


Gregory J. Ahart
Director

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The Honorable Jesse A. Helms
United States Senate

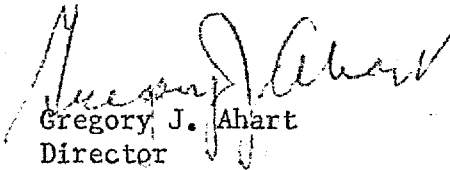
Dear Senator Helms:

As requested we are enclosing a copy of our letter report on the administration of Federal funds at Durham College, Durham, North Carolina. Information in the report was developed in response to a September 17, 1974, request of your office.

We advised your office on November 4, 1974, that our efforts had uncovered little evidence to support the allegation that Federal funds were being used for other than program purposes. It was agreed that we would write a letter to the Department of Health, Education, and Welfare, Atlanta Regional Office, detailing the college's reporting and recordkeeping problems.

If we can be of further assistance please let us know.

Sincerely yours,


Gregory J. Ahart
Director

Enclosure

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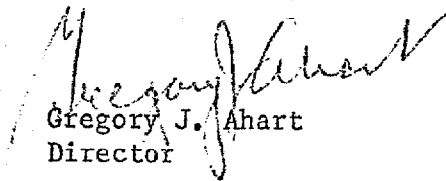
Dr. L. McCauley Harris, President
Durham College
Durham, North Carolina 27707

Dear Dr. Harris:

Enclosed is a copy of our letter report to the Regional Commissioner of Education, Department of Health, Education, and Welfare, Region IV, on the administration of Federal funds at Durham College. Our review at the college was prompted by an inquiry from the Honorable Jesse Helms, United States Senate. The report contains our recommendations to the Regional Commissioner of Education directed to improving certain financial management practices relating to Federal funds.

We appreciate the cooperation and assistance provided to our representatives by college officials.

Sincerely yours,


Gregory J. Ahart
Director

Enclosure