



UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

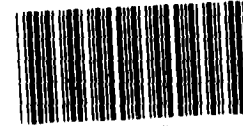
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ACCOUNTING AND FINANCIAL
MANAGEMENT DIVISION

B-203960

AUGUST 19, 1981

The Honorable Dwight A. Ink
Director, Community Services
Administration



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Dear Mr. Ink:

Subject: [Financial Control System Problems at the Community Services Administration will not be Fully Solved by the Current System Redesign Project] (AFMD-81-96)

Our recent review of the Community Services Administration's automated Financial Control System revealed such a state of disarray that it is clear managers are not receiving the information they need to adequately control and accurately report grantee use of funds totaling millions of dollars. Managers must have accurate information on the financial status of grants in order to ensure that expenditures are properly accounted for and that grantees do not draw down and hold excessive amounts of Federal cash.

For the grants we examined, the amount of unexpended cash advances held by grantees as recorded in the Financial Control System was grossly overstated--by over 850 percent. Although the results of our review cannot be statistically projected to all grantees, they indicate a serious lack of reliability of information in the system.

In addition to being inaccurately accounted for, most of the cash held by the grantees we reviewed was in excess of their immediate and reasonable needs and should not have been drawn down until needed to make payments under the grant. Some grantees had cash on hand in excess of a year's requirements. For the grants we reviewed, representing about one-sixth of the total reported balances, excess cash in the hands of grantees cost the Treasury about \$150,000 in interest annually.

Agency managers were aware that information in the Financial Control System could not be relied on, and they often kept manual memorandum records to compensate for this weakness. This created additional administrative costs.

The cause of unreliable information in the automated system is a combination of system design problems and failure to follow procedures. Specifically, grantees and agency personnel have failed to ensure that expenditures are promptly entered into the system and as a result, the system does not provide agency personnel with

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the reliable information needed to monitor grantee cash balances. Many of the reports produced by the system are confusing and hard to understand because of the formats used. Further, many reports are only marginally useful in monitoring grants because they do not provide enough detailed information.

The Community Services Administration has a system redesign project now underway which is a major step toward correcting this situation. The project, if properly implemented, will improve report formats and increase the amount of detailed information included in the reports. It will not, however, eliminate the erroneous information in the system or address the lack of compliance with proper accounting and control procedures. These problems should be taken care of concurrently with the redesign project.

OBJECTIVES, SCOPE, AND METHODOLOGY

We made our review at the Community Services Administration's headquarters office, Washington, D.C., and at the Atlanta Regional Office. The Atlanta region received almost \$87 million, or 12 percent, of the agency's fiscal 1979 appropriation and had responsibility for \$128.9 million, or 19 percent, of the \$665.8 million in unexpended cash advances reported held by the agency's grantees at September 30, 1979, by the Financial Control System. This was the most recent fiscal yearend information available at the time of our review (calendar 1980) with similar information for September 30, 1980, not available until late 1980. The headquarters office, in addition to managing grants with reported unexpended cash advances of \$65 million at September 30, 1979, was responsible for setting agencywide accounting procedures, operating the agency's accounting system, monitoring regional office operations, and preparing internal and external financial reports. We also visited five grantees in the Atlanta region to validate the balances of cash advances they confirmed.

Our objectives were to determine whether the Community Services Administration's accounting and management control systems ensure that

- cash advances received, expenditures, and balances on hand are properly and accurately reported; and
- cash advances are not requested prematurely causing balances to exceed immediate and reasonable cash needs.

In reviewing the accounting for and controls over reporting of grant advances and expenditures, we (1) confirmed with grantees the grant amounts, cash advances, expenditures, and cash on hand at September 30, 1979, for 195 grants; (2) evaluated the uses made by regional office and headquarters recipients of reports from the automated accounting system; and (3) surveyed the status of the accounting system redesign project.

BACKGROUND

The Community Services Administration, established in January 1975 as the successor to the Office of Economic Opportunity, is responsible for coordinating and managing national antipoverty programs. Its activities are authorized by the Economic Opportunity Act of 1964, the Community Services Act of 1974, and the Economic Opportunity Amendments of 1978.

The Community Services Administration includes a Washington, D.C., headquarters office and 10 regional offices throughout the United States. Grantees are advanced cash to conduct their programs. As discussed further on pages 6 and 7, Treasury regulations require that cash be drawn down in amounts to meet only immediate and reasonable cash needs and that grantees do not hold excessive amounts of cash.

The automated Financial Control System design has not been submitted to the Comptroller General for approval. Essentially unchanged since its inception in 1965, the system is designed primarily to provide information to managers for use in monitoring and controlling grantee draw downs of cash advances, expenditures of advanced funds, and cash balances. Expenditure information is to be posted to the system from quarterly reports prepared by grant holders. The reports are reviewed, approved, and prepared for processing by Community Services Administration regional offices and sent to the headquarters office for processing into the system.

The system produces monthly, quarterly, and annual reports on the financial results of program and administrative operations. The monthly Grant Obligations, Advances, and Expenditure Report, for example, shows by individual grant the amount of the grant, cash advance draw downs, expenditures, and unexpended cash advance balance and could be used by managers to monitor cash advance balances maintained by grantees. Another report, the Monthly Account Summary Report, shows, among other things, total grantee draw downs of cash advances, disbursements by grantees, and unexpended cash advance balances. It could be used to determine whether disbursements by grantees are reported and promptly entered into the Financial Control System by comparing draw downs with recorded disbursements.

The Budget and Accounting Procedures Act of 1950 requires agencies to:

- Maintain accounting systems to produce needed, accurate information on resources, liabilities and obligations, expenditures, revenues, and costs for use by agency managers, other agencies, the Congress, and ultimately the public.
- Ensure that agency accounting systems conform to the principles and standards prescribed by the Comptroller General.

The Comptroller General has required that cash advances to grantees be recorded as assets and that, as performance occurs, the accrued expenditures be recorded and the asset account reduced accordingly.

THE AUTOMATED FINANCIAL CONTROL SYSTEM
PRODUCES UNRELIABLE INFORMATION
ON THE FINANCIAL STATUS OF GRANTS

Information in the automated Financial Control System regarding the financial status of grants is unreliable. The reports that agency managers receive are of little value in determining how much money grantees have actually spent and how much they hold in unexpended cash advances. In short, financial accountability and control over grants is inadequate.

The unexpended balance of cash advanced to grantees as recorded in the system was overstated by more than 850 percent for the grants we reviewed. Further, most of the cash actually held by these grantees was excess to their current cash needs and should not yet have been drawn down. For just the grants we reviewed, representing about one-sixth of the total reported outstanding cash advance balance, excess cash in the hands of grantees cost the Treasury about \$150,000 in interest annually.

Community Services Administration managers were aware that information in the automated Financial Control System was unreliable. To compensate, they often maintained manual memorandum records to try to get some of the financial information needed to monitor grantees. This resulted in additional administrative costs, and the agency did not get maximum benefit from the automated system.

Cash advance balances are grossly overstated

We confirmed \$100.5 million of the \$665.8 million in unexpended cash advances to grantees shown on the automated Financial Control System and included in financial reports sent to the Treasury as of September 30, 1979. These confirmations, involving 195 grants managed by the Atlanta region and the headquarters office, disclosed that the information in the Financial Control System was grossly overstated. Only \$10.4 million of the \$100.5 million we confirmed was actually unexpended--an overstatement on the system of over 850 percent.

For 182 of the 195 grants confirmed, we found differences between the amount of unexpended cash advances reported by the system and the amount actually held by the grantees. For example, the system reported

--that a grantee had \$3.3 million in unexpended cash advances while the grantee reported that all advanced funds had been expended;

- that another grantee had unexpended cash advances of \$3.5 million while the grantee confirmed that all but \$300,000 had been expended;
- that a grantee held \$2.5 million in cash advances while the grantee said that only \$188,000 remained on hand; and
- that \$1.5 million in cash advances was held by still another grantee, while the grantee stated that only \$32,000 remained on hand.

As a result, agency managers did not, for the grants confirmed by us, know how much of the millions of dollars advanced to these grantees was actually expended and how much cash grantees held as of any given date. In turn, financial reports to the Treasury on grantee advances were inaccurate since they were based on information in the Financial Control System. The Treasury consolidates the financial reports received from the Community Services Administration with reports received from other Federal agencies to develop annual Government financial statements.

Regional office and headquarters managers acknowledged that financial information in the automated Financial Control System cannot be relied upon in monitoring grants and that information reported to the Treasury on unexpended cash advances is overstated. Atlanta region personnel indicated that they would have to contact grantees directly to get accurate and timely financial information, and that they maintain manual memorandum records to supplement the system.

The impact is even greater on headquarters personnel as they are the primary users of the reports. Headquarters receives 30 reports whereas regional offices receive only 4. These 30 reports include monthly, quarterly, and annual reports on (1) cash advances to grantees through direct Treasury checks and letter of credit draw downs, (2) comparisons of grant amounts, (3) grantee expenditures, and (4) unexpended cash advance balances.

Many headquarters users of reports produced by the system said they are not getting the timely, accurate information they need to monitor grants. For example, 54 users stated that the reports are inaccurate and out of date or cannot be used without correction or further analysis. Another 21 users stated that to get needed financial information they supplement reports received from the system with manual memorandum records. In addition, as discussed further on page 9, users also found the formats of reports to be confusing, making them hard to understand and use.

Overall, the Financial Control System is not producing the kind of accurate, up-to-date information agency managers need. This often forces them to maintain memorandum records in order to do their jobs. Additional administrative costs are incurred to maintain these memorandum records and the agency is not getting

maximum benefit from the automated system, which is costing over \$1 million annually to operate.

Grantees maintain excessive cash balances

Our confirmations of the 195 grants also disclosed that of the \$10.4 million in unexpended cash advances actually held by these grantees as of September 30, 1979, about \$9 million was excess to their current cash needs. We estimate that this excess cash in the hands of grantees alone cost the Treasury about \$150,000 annually in interest.

Treasury requires agencies that make cash advances to monitor grantee draw downs and use of funds to ensure that grantees do not maintain balances of Federal cash that exceed their immediate and reasonable cash needs. Treasury regulations provide two methods of advancing cash to grantees: the direct Treasury check method and the letter of credit method. The direct Treasury check method is to be used when the annual advances to a grantee total less than \$120,000, or when the relationship between the Government and the grantee is expected to be for less than a year. The letter of credit method is to be used when the annual advances to a grantee total more than \$120,000 and the relationship between the Government and the grantee is expected to be for 1 year or more. Letter of credit financing was used for 170 of the 195 selected grants we reviewed.

Under the direct Treasury check method, Treasury regulations require agencies to time advances to grantees so that the funds are available only immediately prior to their disbursement by the grantees. Under the letter of credit method, grantees can withdraw cash from the Treasury concurrently with disbursements and as frequently as disbursements occur, but are limited to no more than one draw down daily and to amounts not less than \$5,000. These regulations also specify that grantees maintain cash balances not to exceed \$5,000. Organizations usually need no more than a 3-business-day supply of Federal cash when obtaining advances under letters of credit, but this is conditioned by the \$5,000 minimum draw down requirement. In this regard, Office of Management and Budget regulations provide that grantees may be required to explain letter of credit cash advance balances in excess of a 3-day supply and specify actions taken to reduce the excess cash balances. On the other hand, grantees receiving advances by Treasury check are generally limited to a 30-day cash supply.

As stated previously, Community Services Administration personnel acknowledge that the inaccurate information in the financial reports they receive makes it difficult to monitor and control grantee draw downs of Federal cash and identify grantees maintaining cash balances that exceed their current cash needs. Consequently, grantees can hold Federal funds far in excess of their current cash needs without fear of being questioned by agency personnel.

Our confirmations of unexpended cash advances as of September 30, 1979, disclosed that grantees drawing down and holding excessive balances of Federal cash is a serious problem at the Community Services Administration. Of the 195 grants directly confirmed, 134 grantees reported excess cash--128 grantees under the letter of credit method had cash exceeding a 3-day supply, and the other 6 grantees under the direct Treasury check method had cash exceeding a 30-day supply. In three cases, grantees reported more than a year's supply of cash on hand totaling about \$190,000. Overall, the 134 grantees had about \$9 million in cash that exceeded their immediate and reasonable cash needs. The breakdown was as follows:

<u>Method of paying advances</u>	<u>Excess cash on hand</u>
Direct Treasury check	\$ 115,784
Letter of credit	<u>8,878,248</u>
Total	<u>\$8,994,032</u>

We estimate that allowing grantees to hold this much excess cash for just the grants we reviewed cost the Treasury about \$150,000 in interest annually. ^{1/} This cost could have been avoided had the automated Financial Control System provided agency managers with the reliable information on outstanding cash advances they needed to monitor and control grantee cash draw downs, expenditures, and outstanding cash advance balances.

CAUSES OF UNRELIABLE INFORMATION:
FAILURE TO FOLLOW PROCEDURES
PLUS SYSTEM DESIGN PROBLEMS

The problems with the automated Financial Control System stem primarily from the failure of grantee and agency personnel to follow prescribed accounting and control procedures. An additional problem is the confusing format of many of the reports produced by the system, making them hard to understand and use. Also, many reports do not include enough detailed information, making them only marginally useful in monitoring grants.

^{1/}In computing this cost, we used the 11.18 percent interest rate the Treasury earned on its tax and loan accounts during September 1979. These accounts are maintained in commercial banks throughout the country and amounts due the Federal Government, such as Federal payroll taxes, are directly deposited in them. The banks pay interest to the Treasury on these funds. Treasury operating accounts--the accounts used to honor checks and letter of credit draw downs on Treasury funds--are funded in part from the tax and loan accounts.

An automated accounting system includes (1) the procedures to gather, prepare, control, and enter information into the computer for processing; (2) the computer programs, files, and reports; (3) the computer equipment itself; and (4) the people who run the system. Like a chain, any automated accounting system is only as good as its weakest link and any design or operating deficiency in any part of the system will cause the entire system to break down. This is particularly true if the people who run an automated accounting system do not follow prescribed procedures, or if the reports the system produces are hard to understand and use or do not present the information needed by users in doing their jobs.

Our review of the Financial Control System and selected grants disclosed the following failure to follow prescribed procedures that are necessary for the success of the system:

- Grantees were often late in filing required expenditure reports. For example, for 40 of the 104 grants confirmed in the Atlanta region, grantees were up to 7 months late reporting expenditures to the Community Services Administration, even though agency instructions require grantees to file financial status and transaction reports within 15 days of the end of each quarter and provide for suspending funds to grantees who do not comply. On the average, grantees submitted reports 51 days late.
- Grantees in our sample who were late or failed to submit reports did not have grant funds suspended as provided for in agency instructions even in cases where expenditure reports were filed 7 months late.
- Agency personnel failed to promptly enter expenditure reports received into the accounting system. For example, expenditure reports were entered promptly for only 11 of the 104 grants we confirmed in the Atlanta region. We identified unrecorded expenditure reports ranging up to 33 months, with the average time being 11 months.
- Inactive grants were not promptly closed out. In addition to the grants we confirmed, we identified 76 grantees in the Atlanta region that were still carried as active grants even though they were no longer receiving grant funds from the Community Services Administration. Some of these grantees had received no funds for more than 3 years. Altogether the system reported they had unexpended cash balances of over \$3 million. The grantees had not filed final expenditure and audit reports and the regional and headquarters offices had taken no action to secure these reports or close out the grants. The Office of Management and Budget's Uniform Administrative Requirements For Grants (Circular A-110) require agency personnel to ensure that grantees (1) submit all financial, performance, and other reports within 90 days after completion of work and (2) immediately remit any unobligated cash advanced.

Compounding the failure by grantee and agency personnel to follow prescribed accounting and control procedures were the confusing formats of the reports produced by the Financial Control System. Users of the reports considered them hard to understand and use and found that many reports did not include enough information for effectively monitoring grants.

We interviewed 160 headquarters users of 30 reports ^{1/} produced by the system and asked them to comment on the usefulness of the reports in monitoring the financial status of grants.

--Fifty-two users believed that the formats of the reports are confusing and that not enough detailed information is presented. For example, 17 users said that, because of the extensive use of numeric codes to identify and describe financial information, the reports are difficult to use. Further, they believed more detailed instructions were needed on the purpose, information presented, and use of the reports. Another 35 users said that more detailed information, such as grantee termination dates, grantee addresses, deobligation amounts, and obligations and allotments by grant number, is needed.

--Ninety-six users commented either that the reports from the automated system duplicate information they receive in other reports (39 users) or that the information in the reports from the automated system is available from other sources (57 users).

--Thirty-seven users stated they could effectively perform their duties without receiving reports from the system. For example, a budget official commented that the weekly report received on grant obligations does not include the information needed for budget control. As a result, this individual maintains manual memorandum records.

CURRENT SYSTEM REDESIGN PROJECT--
A STEP IN THE RIGHT DIRECTION

The Community Services Administration has recognized the seriousness of its grantee information problems and has undertaken a project to redesign the Financial Control System. The redesign effort will focus on (1) development of summary reports for upper level managers; (2) redesign of reports to eliminate confusing

^{1/}For our study of the usefulness of the 30 selected reports produced by the automated Financial Control System, a user is defined as a recipient of a copy of one of the 30 reports selected for review. Since many of the 30 reports are prepared and distributed in multiple copies, we interviewed recipients of each of the 160 copies distributed of the 30 reports reviewed.

formats; (3) consolidation of existing reports into fewer, more useful reports; and (4) development of new accounting procedures together with the necessary training. Accomplishment of these objectives should go a long way toward remedying the financial report problems that have plagued the Financial Control System. The Community Services Administration has submitted an outline of the design of the new system to us for comment prior to submitting the system design for formal approval by the Comptroller General.

However, the project offers only a partial solution to the problems with the system. Inaccurate information, particularly on unexpended cash held by grantees, will still permeate the system. Current plans for implementing the new system call for use of information now in the Financial Control System--information that is acknowledged by Community Services Administration officials to be largely inaccurate. Also, outside of initial training of agency accounting personnel in new procedures, the implementation plan does not include developing and putting in place new management controls to ensure that agency personnel actually comply with the new procedures.

Without a concurrent effort to (1) purify the information in the Financial Control System and keep this information up to date and (2) develop and implement management controls to ensure that grantee and agency personnel follow prescribed accounting and control procedures, the new system will continue to produce unreliable information on the financial status of grants.

CONCLUSIONS

The Community Services Administration has taken an important step to improve its financial management of grants, but has not gone far enough. The ongoing project to redesign the Financial Control System must be coupled with a carefully planned concurrent effort to purify information presently in the system's automated files and to establish a system of management controls to ensure that grantee and agency personnel enter all transaction information into the system promptly. Without these efforts, any new system will continue to produce reports that managers cannot use and the need for memorandum accounting records will continue. Also, the new system should conform to the accounting principles and standards approved by the Comptroller General on April 5, 1979, and should be submitted to the Comptroller General for approval, as required by the Budget and Accounting Procedures Act of 1950.

Agency officials informed us that the Community Services Administration may not be funded for fiscal 1982, and may, therefore, not exist as a separate, independent agency after September 30, 1981. In this event, the agency's programs would be folded into block grants to be run by the States. If, in fact, the Community Services Administration is not funded beyond September 30, 1981, it is extremely important that the information on the

financial status of grants in the automated Financial Control System be immediately brought up to date to enable the agency to:

- Identify, for grants that terminate on or before September 30, 1981, the unobligated cash advances in the hands of grantees as of grant termination and to collect these funds from the grantees.
- Identify, for grants that terminate after September 30, 1981, the accurate financial status of these grants as of September 30, 1981, and to report this information to the States that will take over administration of these grants.

RECOMMENDATIONS

We recommend that you immediately issue instructions to purify the information on the financial status of grants in the Financial Control System. Also, if the Community Services Administration continues to exist as a separate, independent agency after September 30, 1981, we further recommend that you issue instructions to require that:

- Management controls be developed and implemented to ensure that agency personnel and grantees will fully comply with prescribed accounting and control procedures.
- The design of the new system conform to the principles and standards approved by the Comptroller General on April 15, 1979, and be submitted to the Comptroller General for approval.

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As you know, Section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the House Committee on Government Operations and the Senate Committee on Governmental Affairs not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to the Chairmen of the House Committee on Government Operations and Senate Committee on Governmental Affairs, the Director of the Office of Management and Budget, and the Secretary of the Treasury.

We wish to express our appreciation for the cooperation received during this review. If you desire further information concerning our findings, we would be happy to meet with you or your staff.

Sincerely yours,

A handwritten signature in black ink, appearing to read "W. D. Campbell". The signature is written in a cursive style with a large, looped "C" at the end.

W. D. Campbell
Acting Director