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Financial Activities Of The Economic Opportunities Council Of Indian River County, Inc., Vero Beach, Florida

B-130515

Office of Economic Opportunity
Department of Health, Education,
and Welfare

**BY THE COMPTROLLER GENERAL
OF THE UNITED STATES**

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FEB. 28, 1973



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

B-130515

Dear Mr. Frey:

This is our report on financial activities of the Economic Opportunities Council of Indian River County, Inc., Vero Beach, Florida, funded by the Office of Economic Opportunity (OEO) and the Department of Health, Education, and Welfare (HEW). Our review was made in response to your request of April 14, 1972, and a subsequent discussion with your office on April 20, 1972.

As requested by your office, OEO, HEW, and the council have not been given an opportunity to formally examine and comment on this report. However, we have discussed our findings with officials of these agencies and representatives of the council.

As agreed with your office, we are providing copies of this report to the Director, Office of Management and Budget; the House and Senate Committees on Government Operations and on Appropriations; OEO; HEW; and the executive director and president of the board of directors of the council.

We do not plan to distribute this report further unless you agree or publicly announce its contents.

Sincerely yours,

A handwritten signature in cursive script that reads "James B. Stacks".

Comptroller General
of the United States

The Honorable Lou Frey, Jr.
House of Representatives

COMPTROLLER GENERAL'S REPORT
TO THE HONORABLE LOU FREY, JR.
HOUSE OF REPRESENTATIVES

FINANCIAL ACTIVITIES OF THE ECONOMIC
OPPORTUNITIES COUNCIL OF INDIAN RIVER
COUNTY, INC., VERO BEACH, FLORIDA
Office of Economic Opportunity
Department of Health, Education,
and Welfare B-130515

D I G E S T

WHY THE REVIEW WAS MADE

At the request of Congressman Lou Frey, Jr., the General Accounting Office (GAO) reviewed financial activities of the Economic Opportunities Council of Indian River County, Inc., Vero Beach, Florida.

For the year which began January 1, 1972, the Office of Economic Opportunity (OEO); the Department of Health, Education, and Welfare (HEW); and the Department of Labor provided the council with grant funds totaling about \$474,000 for operating six programs.

OEO instructions and guidelines relating to financial control and administration are to be followed by HEW Head Start grantees. GAO did not review the effectiveness of the council's programs. Also GAO did not review Department of Labor grant funds because the grant covered only summer activities which were not in operation during the period tested by GAO.

At the request of Congressman Frey's office, OEO, HEW, and the council have not been given an opportunity to formally examine and comment on the contents of the report. GAO's findings, however, have been discussed with representatives of these agencies and the council.

FINDINGS AND CONCLUSIONS

Deficiencies in administration of grant funds

For the program year ended December 1972, the council received Federal funds totaling about \$474,000, of which about \$189,000 was spent during the 6-month period ended June 30, 1972. (See p. 5.)

GAO's examination of March and April 1972 expenditures totaling about \$85,000 showed weaknesses in controls over financial transactions and the need for improvements in the administration of grant funds. GAO examined transactions in other months where it believed additional testing was necessary. (See pp. 5 and 7.)

Payroll and related records were generally inadequate to determine whether paychecks were issued in the proper amounts, were based on approved pay rates, and were for time the employees actually worked. (See p. 7.)

--Time and attendance records were not maintained for 20 of the 69 council employees. For the remaining 49 employees, the time and attendance records were incomplete, contained errors, or did not agree with the number of hours for which

the employees were paid. (See p. 7.)

--A test of 12 employees who had taken leave during March 1972 showed that 125 hours of leave taken by seven employees had not been shown on their leave records. (See p. 9.)

--Personnel files for five employees were missing, and the files for 57 employees did not contain documentation supporting the propriety of salary payments. For 21 of the 23 employees whose salaries exceeded \$5,000, personnel records did not show the employees' salaries at their last previous employment, although required by OEO instructions. (See p. 9.)

--Four employees received salary increases--without the required approval of OEO or HEW--which, on an annual basis, exceeded prescribed limitations by a total of \$2,200. (See p. 10.)

--During March and April 1972, overtime totaling 182 hours was incorrectly paid at the regular salary rate, rather than 1-1/2 times the regular salary rate, and without advance approval, although required by the council's personnel policies. (See p. 10.)

The council, contrary to OEO instructions, used about \$4,400 in payroll taxes withheld from employees' wages for program activities. The council used grant funds to pay penalties of \$193 because payroll taxes previously were not remitted to the Internal Revenue Service (IRS) when due. (See p. 11.)

Of \$933 in travel costs examined, \$452 was not adequately supported by the travel vouchers or other documentation, although required under

the Standardized Government Travel Regulations. Also the council was not consistent in applying the rates on which per diem payments were based, and vouchers had not been submitted to support out-of-town travel. (See p. 12.)

GAO examined purchases of supplies, services, equipment, and other items totaling \$25,228. The council did not have an effective procedure for auditing billings before payment and for examining records to prevent duplicate payments of bills. Purchases totaling \$23,994 were not supported by purchase orders or requisitions; \$6,552 of these purchases were not supported by signed receiving reports or other documents showing what was actually purchased and delivered. Also the council generally did not obtain competitive quotations from potential suppliers. In two instances the council made payments totaling about \$1,100 for grocery purchases from retail rather than from wholesale suppliers. (See p. 13.)

Grant funds were improperly used for interest and legal fees in the amount of \$269 for a bank loan made by the council. (See p. 15.)

The council did not maintain adequate records on nonexpendable property. In a test of 88 items from the council's inventory listing, 61 items valued at about \$4,300 could not be positively identified and 10 items valued at about \$1,400 could not be located. GAO found nine items that were not on the inventory listing. (See p. 16.)

Lease agreements were not available to document all space procurements, and realtor's certifications were not available to attest to the reasonableness of the amounts paid. (See p. 18.)

CHAPTER 1

INTRODUCTION

Pursuant to a request from Congressman Lou Frey, Jr., dated April 14, 1972 (see app. I), and as agreed to in a subsequent discussion on April 20, 1972, we reviewed the financial activities of the Economic Opportunities Council of Indian River County, Inc., Vero Beach, Florida. The council is a community action agency conducting a number of antipoverty programs in Indian River County under grants awarded by the Office of Economic Opportunity (OEO); the Department of Health, Education, and Welfare (HEW); and the Department of Labor.

The council was incorporated on June 16, 1965, as a nonprofit organization to combat poverty through community action programs and research projects. The council is governed by a board of directors which, in July 1972, consisted of 11 public officials, 11 representatives of the community, and 14 representatives of the poor.

The council was provided Federal funds totaling about \$474,000 for the 1972 program year ended December 31, 1972. A summary of these funds, by program, is shown in appendix II. As of June 30, 1972, about \$189,000 of the funds provided had been spent.

Our review was made primarily at the council's headquarters from May to August 1972. We reviewed pertinent legislation and OEO instructions and guidelines relating to financial control and administration which are also to be followed by HEW Head Start grantees. We interviewed officials of the council, OEO, and HEW. We tested about \$85,000 of the council's financial transactions for March and April 1972. We expanded our test to include transactions in other months where we believed additional testing was necessary. Labor grant funds were not reviewed, because the grant covered only summer activities which were not in operation during our test period. We did not evaluate the effectiveness of the council's programs.

The council's financial transactions for the program year ended December 31, 1971, had been audited by a firm of certified public accountants, which reported that the council's internal controls were deemed adequate to safeguard the assets of the grantee. The firm reported also that no weaknesses in the accounting system and internal controls were observed; and the financial statements presented fairly the financial position of the council at December 31, 1971, and the results of its operations for the year then ended. We did not evaluate the adequacy of the firm's audit work.

CHAPTER 2

IMPROVEMENTS NEEDED IN ADMINISTRATION OF GRANT FUNDS

Weaknesses existed in the council's internal controls over, and administration of, grant funds. Many expenditures were not supported by adequate documentation; effective controls did not exist over the writing and cashing of checks; and property accountability records had not been maintained. These weaknesses precluded us from determining whether many of the expenditures reviewed were for authorized purposes and were consistent with OEO and HEW program objectives. We believe that, in addition to the weaknesses in financial management, management of the day-to-day operations of the council may have suffered because of vacancies in key management positions and internal conflicts.

Although it is a grantee's responsibility to comply with the terms of its grants and with OEO instructions relating to the establishment of an acceptable system of control over, and administration of, grant funds, OEO and HEW are responsible for monitoring a grantee's operations and for providing assistance to a grantee to insure that grant funds are expended properly.

The matters discussed in this report show that close surveillance by OEO and HEW over the council's financial activities is warranted.

PAYROLL AND RELATED COSTS

Salaries and fringe benefits paid council employees from January 1 through June 30, 1972, amounted to about \$145,000. We examined the March and April 1972 payments, which totaled about \$56,000 for 69 employees, and found that the payrolls and related records were generally inadequate to determine whether paychecks were issued in the proper amounts, were based on approved pay rates, and were for time the employees actually worked.

Time and attendance records

OEO instructions require that payroll costs be supported by time and attendance (T&A) records properly approved by

department supervisors. The T&A records and leave records were consolidated by the Head Start secretary and posted to the payroll register which was used to compute salary payments and to prepare the payroll checks.

T&A records were not maintained for the 12 council employees in programs other than Head Start or for eight of the 57 persons employed in the Head Start program during March and April. As a result we were unable to determine whether the payments to these 20 employees had been for the time actually worked.

T&A records for the remaining 49 Head Start program employees were incomplete, contained errors in computations, or did not agree with the number of hours for which employees were paid. For example, for 24 employees, we could not find complete T&A records covering each workday of the 2-month period reviewed. Many records were incomplete, and some--covering a part of one pay period--could not be located. Other records did not show the payroll period to which they related.

For March 1972 we tried to compare the hours worked as shown on the T&A records with the hours shown on the payroll register. Sufficient information was not available to make such a comparison for 23 employees. For the remaining 26 employees, six had been paid for a total of 67 hours although T&A records showed no work had been performed, and for eight the number of hours shown as worked on the T&A records was 68 hours more than the number of hours shown on the payroll register.

Some of these differences resulted from the payroll register for council employees being prepared 2 to 4 days before the end of each semimonthly pay period. Differences between the time projected on the payroll register and the time shown on the T&A records were not corrected during the subsequent pay period.

For example, the payroll register for the pay period ended March 15, 1972, was prepared and delivered to the bookkeeper the afternoon of March 13. This payroll register showed that four employees each had been paid for working 8 hours on March 14 and 15, the 2 days following the

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<u>ABBREVIATIONS</u>	
OEO	Office of Economic Opportunity
HEW	Department of Health, Education, and Welfare

ABBREVIATIONS

CPA certified public accountant
IRS Internal Revenue Service
GAO General Accounting Office
T&A time and attendance

* Between April 1971 and April 1972, 151 checks totaling \$3,380 were made payable to cash for purchasing food stamps for needy persons. GAO's examination of these checks showed that:

- 79 exceeded the \$15 limitation printed on the faces of the checks.
- For six, totaling \$207, information was not available to determine who was to receive the food stamps.
- The amounts of 44 checks, totaling \$833, did not agree with records in the food stamp office of purchases made; however, the amounts on 35 of these 44 checks were for less than the amounts of the purchases made, indicating that persons may have supplemented the council's funds when purchasing stamps. (See p. 18.)

Problems affecting the council's operations

Dissension among the board of direc-

tors and among staff members and several vacancies in key management positions may have contributed to the weaknesses discussed in the report. (See p. 20.)

RECOMMENDATIONS OR SUGGESTIONS

GAO recommends that the Secretary, HEW, and Director, OEO:

1. Emphasize to the council the need for establishing an acceptable system of control over, and administration of, grant funds.
2. Provide surveillance over, and assistance to, the council in developing such controls.
3. Take action to recover those expenditures not properly chargeable to Federal grants.
4. Monitor the operations of the council to insure that vacancies in key management positions are filled and that problems causing dissension are resolved. (See p. 22.)

preparation of the register. The T&A records showed that three employees had not worked on either day and that the other employee had worked only 1 day. No leave was charged for these absences.

Leave records

OEO guidelines provide that a cumulative leave record should be maintained for each employee and should show the accumulative leave earned from previous periods, amounts earned and used monthly, and the balance available.

Records relating to the accumulative leave and the employees' use of leave were generally inadequate. Employees' leave balances were not always reduced when T&A records and leave applications showed that leave had been taken. We examined the leave records for 12 employees who were shown on the March T&A records as having taken leave during the month. A total of 125 hours of leave taken by seven employees had not been shown on their leave records.

Salary limitations

OEO instructions require that starting salaries in excess of \$5,000 be limited to an amount which does not exceed, by more than 20 percent or \$2,500, whichever is smaller, the salary of the person's last previous employment, unless approved by OEO officials. For Head Start employees, HEW approval is required. In addition, these instructions prohibit salary increases in excess of 20 percent or \$2,500, whichever is less, within a 12-month period for those employees earning \$5,000 or more, unless advance approval is obtained.

Personnel files for five employees were missing, and the files for 57 employees did not contain documentation supporting the propriety of salary payments. These files did not contain complete information on dates of employment, beginning salaries, position titles, promotions, changes in salary or position, or merit increases.

The council employed 23 individuals whose salaries were in excess of \$5,000. Personnel records for 21 of the 23 employees did not contain documentation showing the employees'

prior salaries. For the two employees for which documentation was available, the beginning salary limitation was complied with.

We determined that four employees had received salary increases within a 12-month period which exceeded the 20-percent limitation. These increases were not approved by HEW or OEO. The annual salaries at which these four employees were being paid exceeded the 20-percent limitation by a total of \$2,200.

Overtime compensation

The council's personnel policies require that overtime be approved in advance by the program director. During March and April 1972, two employees generally were paid up to 4 hours overtime each day, totaling 160 hours, and five teachers and teacher-aides were paid for overtime, totaling 22 hours, that was not approved in advance by the program director. In all cases these employees were being paid at their regular salary rate, although the council's personnel policies require that overtime be paid at 1-1/2 times the regular salary rate.

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We discussed the results of our work on payroll and related costs with officials of the council and representatives of OEO and HEW. Neither the council's president nor the acting executive director offered any comments. The OEO and HEW representatives told us in August 1972 they believe that many of the payroll deficiencies could be corrected if the council hired a full-time accountant, rather than contracting for accounting services. They said that a full-time accountant could establish the necessary controls to insure the accuracy of T&A records, leave records, and the payroll register. They stated that they planned to visit the council to determine what action is necessary to correct these deficiencies.

Payroll taxes payable

The council did not comply with OEO instructions which prohibit grantees from using taxes withheld from employees'

wages for program purposes, with the intent to restore the taxes from another source later.

The bookkeeper informed the council's executive director on February 16, 1972, that approximately \$4,400 in withheld payroll taxes were unpaid. The bookkeeper suggested that these taxes be paid before the council disbursed any other cash. However, funds for these unpaid taxes were used for program activities. According to the president of the board of directors, this was done because the council was short of operating funds as a result of a delay in having its grants approved. The council paid the total past-due taxes to the Internal Revenue Service (IRS) in March 1972 when Federal funds became available.

On April 4, 1972, the council paid penalties totaling \$193 to IRS because about \$3,800 in 1971 withheld taxes were not paid to IRS when due. These penalties were paid from grant funds. The president of the board of directors stated that he considered the delay in paying payroll taxes to be of little consequence since only Federal funds were involved. We believe, however, that the use of grant funds for purposes other than program activities is inappropriate, because it reduces the amount of funds which can be used for program activities.

TRAVEL

OEO instructions require that travel payments be made in accordance with the Standardized Government Travel Regulations. Travel expenditures totaled \$4,476 from January 1 through June 30, 1972. We examined \$933 of these costs in March and April and found that \$452, or 48 percent, had not been adequately supported by the travel vouchers or other documentation, although required under the Standardized Government Travel Regulations.

We found only check stubs and canceled checks to support \$365 of these costs. The supporting vouchers or other documentation for the remaining \$87 did not show odometer readings or, where odometer readings were shown, the mileage computations did not agree with the readings.

Because only one per diem payment was made in March and April, we examined payments in May. The council was not consistent in applying the rates on which the per diem payments were based, and vouchers had not been submitted to support out-of-town travel.

For example:

- The deputy director wrote a memorandum to the bookkeeper on April 25, 1972, requesting that a check for \$42.60 be issued to him for attending a conference at Fort Lauderdale, Florida, on April 26 and 27. The memorandum requested "per diem with overnight \$20.00" and mileage payment of \$22.60. No travel order, voucher, or receipts to support the disbursement could be located.
- The acting Head Start director, with the approval of the acting executive director, requested that checks be prepared for 10 employees to attend an all-day workshop at Fort Pierce, Florida, on May 20, 1972. The only support for the \$75 disbursement was the memorandum requesting the checks.
- The acting Head Start director requested that a check be issued to each of two employees for per diem, mileage, and registration fees to attend a workshop

at Miami, Florida, on May 19, 20, and 21. The workshop announcement stated "Registration Fee and Food for Saturday and Sunday will cost \$25.00 per person." Each employee received \$25 for the registration fee. One employee received \$20 per diem and \$30 for mileage and the other employee received \$56 per diem. The only support for the \$156 disbursement was the request to issue the checks.

PROCUREMENT

We reviewed 161 payments made in March and April 1972 for supplies, services, equipment, and miscellaneous items totaling \$25,228. The council had not fully complied with its procedures and OEO guidelines which provide that purchases should be initiated by purchase orders or requisitions and that the receipt of goods and services be adequately documented. The council did not have an effective procedure for auditing billings before payment and for examining records to prevent duplicate payments of bills. Of the 161 payments reviewed, 155, totaling \$23,994, were not supported by purchase orders or requisitions. Further, 62 of these payments were not supported by signed receiving reports showing what was actually purchased and delivered. The following table presents a breakdown of these 62 payments.

<u>Description</u>	<u>Number of payments</u>	<u>Amount</u>
No support other than canceled check and check stub	13	\$ 907
No receiving report or other document except bills from vendors	28	2,418
No signed receiving report evidencing receipt of goods or services	<u>21</u>	<u>3,227</u>
Total	<u>62</u>	<u>\$6,552</u>

Details of examples of procurement deficiencies follow.

1. On March 23, 1972, a \$500.61 check was issued to a supermarket for food for the Head Start program.

The only support for the payment was the canceled check. The manager of the supermarket told us that he did furnish groceries to the council but he did not retain copies of statements or invoices after payment had been received. The acting executive director could not explain the absence of invoices or receiving reports to support this payment.

2. Invoices for service station gasoline purchases and vehicle repairs did not always show the type of vehicle, license number, or evidence that the gasoline had been received and repairs had been made. Of the invoices we examined, 10 were not signed by the individuals making the purchases and 11 did not show the types or license numbers of vehicles serviced. In April 1972 the executive director noticed these discrepancies in service station purchases and issued instructions designed to prevent these discrepancies from occurring in the future. However, the condition had not improved at the time of our review.
3. On April 4, 1972, automobile insurance premiums for calendar year 1972 were paid, including \$126 for a vehicle that had been disposed of about January 25, 1972. The insurance company had not been notified of the disposal. We brought this discrepancy to the acting executive director's attention on July 14, 1972, and he said that he would cancel the insurance on this vehicle and on a vehicle for which disposal was planned.
4. A bill for \$15.12 was paid twice. When detected by the council, a subsequent bill was adjusted to correct the duplicate payment.

In our opinion, these deficiencies occurred primarily because invoices were not examined and matched to purchase orders and receiving reports before authorizing payment. Such procedures would disclose instances when adequate supporting documentation was not available.

The council generally was not following OEO guidelines which provide that competitive quotations should be obtained

if customarily furnished by suppliers. Obtaining competitive quotations helps to insure that the lowest possible prices are obtained. The council was purchasing milk, meat, and produce--costing about \$3,000 a month--from several vendors without obtaining competitive quotations. We noted two payments, totaling about \$1,100, for purchases made over a 3-month period from a local retail grocery store, rather than from wholesale suppliers.

Unauthorized expenditure

In addition to finding the procurement deficiencies noted above, we found several unauthorized expenditures. The council paid interest and attorney fees of \$269 for a bank loan received by the council to provide operating capital when approvals of the 1972 grants were delayed. OEO instructions prohibit using grant funds to pay interest and other charges incurred to borrow funds unless previously approved by OEO. According to an OEO official, he had previously told the former executive director that these costs could not be paid with Federal funds.

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We discussed these deficiencies with the president of the council's board of directors. We suggested that, to achieve acceptable control over procurements, detailed written instructions prescribing the controls to be maintained over procurements be issued to each employee involved in purchasing. The instruction should provide for purchases to be made only by authorized employees and for proper documentation to be maintained, including purchase requests, purchase orders, invoices, and evidence that goods and services have been received. These documents should be assembled at the council's office for audit before authorizing payments to the vendors. After developing such instructions, an orientation program should be conducted to familiarize employees with acceptable procurement procedures and practices. The president agreed with our suggestion and stated that he would consider appointing a purchasing officer to supervise procurements.

ACCOUNTABLE PROPERTY

OEO instructions require that grantees maintain records of all nonexpendable property purchased; take periodic physical inventories; reconcile physical inventory results with property records; and inform the grantor if such property is lost, destroyed, or stolen.

Effective controls over the council's nonexpendable property had not been established and property record cards had not been maintained. At the time of our review, the council's most current property listing, dated August 24, 1970, showed property purchased with OEO and HEW funds to be \$6,485 and \$44,519, respectively. Contrary to OEO instructions, this list included many expendable items, such as knives and forks, puzzles, and glassware, valued as low as 10 cents. Generally a control number or serial number was shown for each item listed.

According to the acting executive director, property acquisitions after August 24, 1970, had been added to the inventory listing. However, no items had been added to the listing after May 3, 1971, although records showed that at least two items--a \$225 lawnmower and an \$895 office trailer--had been acquired after that.

We selected, and looked for, 88 nonexpendable items valued at \$8,600 from the inventory listing. We found 17 items valued at \$2,900. Of the remaining 71 items:

- 61 items, valued at about \$4,300, could not be positively identified because the items did not have any identification numbers that could be matched with numbers shown on the inventory listing, although items meeting their general description were on hand and
- 10 items--a freezer, three typewriters, two record players, a projector, a projector screen, an adding machine, and an electric fan--valued at about \$1,400, could not be located. The acting executive director was unable to furnish us with the locations of these items.

We found two fluid duplicators, a Thermo-Fax copier, and a recorder that had not been recorded on the inventory listing. These items were marked showing that they were the property of the council. In addition, we found two stoves and three filing cabinets that were not recorded on the inventory listing but we could not determine whether the council owned them.

According to an OEO official, a copy of the inventory listing dated August 24, 1970, was the latest inventory listing made available to OEO and was the listing included with the refunding proposal for the council's 1972 program year. An HEW official told us that the council had not submitted the required inventory listing to HEW.

We discussed these deficiencies in property accountability with the president of the board of directors and suggested that property cards be kept on all items of nonexpendable property and that the property be identified to correspond with these cards. These cards should contain, as a minimum, data required by OEO instructions on property control. The president agreed and said that he would consider appointing a property officer to maintain these property records.

SPACE RENTALS

The council was not complying with OEO guidelines which provide that all space procurements be documented by a rental or lease agreement. HEW guidelines provide that the reasonableness of Head Start space rentals should be supported by a local realtor certification. Rental costs for program year 1972 will amount to about \$6,300 for five buildings used for the programs. We found a 1972 lease agreement for about \$2,000 a year for one of these buildings. There were no 1972 lease agreements for the remaining four buildings. No local realtor certification could be located to attest to the reasonableness of the lease amounts paid. The acting executive director was unable to explain the absence of these lease agreements and did not know whether realtor certifications had been obtained concerning the reasonableness of the rentals.

DEFICIENCIES IN CONTROL OVER EXPENDITURES OF EMERGENCY FOOD AND MEDICAL SERVICES FUNDS

In our test of March and April 1972 transactions, we found that inadequate controls existed over the expenditures for emergency food and medical services from an imprest fund established to purchase food stamps. Our initial review revealed that 18 imprest fund blank checks could not be located and that two checks, one for \$23 and one for \$26.50, exceeded the \$15 limitation specified on the faces of the checks. Because of this apparent lack of internal controls, we expanded our test to transactions to include the period April 1971 through April 1972.

For that period 151 checks totaling \$3,380 made payable to cash, for purchasing food stamps, had been cashed by council employees. Because inadequate controls existed over these expenditures, we could not determine whether these funds were used to acquire food stamps or whether the food stamps were provided only to needy people.

Since January 1970 the council expended about \$82,000 in Emergency Food and Medical Services funds through a program known as Operation Outreach. The program was to provide funds, on an emergency basis, for foodstuffs and medical services.

According to the former Operation Outreach director, the usual method used by outreach employees to provide food stamps to needy persons was for the program director to make checks payable to cash, to cash these checks at a local bank, and to use this cash to purchase food stamps from the local office of the Florida State Department of Health and Rehabilitation Services. This procedure was followed because the food stamp office refused to accept checks. Sometimes the needy person accompanied the outreach employee to sign a receipt for the food stamps, and at other times the cash was left at the food stamp office to be used when the needy person later reported to the office to obtain the stamps. In both instances the outreach employee obtained a receipt from the food stamp office and the needy person was required to sign for the food stamps.

Since internal control over these expenditures appeared weak, we attempted to compare the records of cash purchases of food stamps maintained by outreach employees with records in the food stamp office. Of the 151 checks, we found six checks, totaling \$207, for which information was not available to determine the needy person who was to receive the food stamps. Of the 145 checks for which information was available, we compared the amount of purchases made at the food stamp office by needy persons with the amount of the checks and found that for 101 checks, totaling \$2,340, records in the food stamp office indicated that food stamps had been purchased in the amount of the checks.

The amounts on the remaining 44 checks, totaling \$833, did not agree with records in the food stamp office of purchases made. However, 35 of these 44 checks were for less than the amounts of the purchases which indicated the needy persons may have supplemented the council's funds with their own funds when purchasing stamps. We could not determine why the amounts on the other nine checks were for more than the purchases.

All checks written for purchases of foodstuffs and food stamps between April 1971 and April 1972 were signed by the director of the Operation Outreach program. Each check contained the printed statement on the check "No more than \$15.00." Of the 151 checks made payable to cash, the amounts

on 79 exceeded this limit. The amounts on the 79 checks ranged from \$16 to \$129. Bank officials told us that these checks had been honored by the bank after obtaining approval, by telephone, from either the executive director or the board president. The bank officials said that they would no longer honor checks in excess of \$15.

Of the 151 checks made payable to cash, 57 were not endorsed when the checks were cashed. According to the bank officials, these checks were probably cashed by the program director who wrote the checks and they were cashed without endorsement. These officials assured us that, in the future, the bank would require endorsements on all checks cashed.

In August 1972 all but about \$1,400 of the Emergency Food and Medical Services funds had been expended. However, the council was negotiating with OEO to obtain another grant. We discussed the results of our review with the acting executive director and he agreed that improved controls were needed. On July 14, 1972, he told us that the administrative assistant in charge of the food stamp office had agreed to accept checks from the council for the purchase of food stamps for needy persons. This should eliminate the need for writing checks to cash.

PROBLEMS AFFECTING THE COUNCIL'S OPERATIONS

We believe that dissension among the board of directors and among council staff members and several vacancies in key management positions have resulted in a lack of leadership of the council and may have contributed to some of the problems discussed in this report.

The positions of executive director, director of the Operation Outreach program, director of the Head Start program, and educational coordinator were vacant when we completed our review in August 1972. One of these positions had been vacant since January 1972 and the others since April and May 1972.

Some council employees were discontented over the council's operations and filed charges of mismanagement with the board of directors. These charges were never formally resolved. Dissension existed between the executive director, before his resignation in April 1972, and the president of

the board of directors. Dissension among board members resulted in one board member resigning and a local community organization withdrawing its support of the council.

When we completed our review, the board of directors was experiencing difficulty in obtaining a quorum. Without a board meeting, the board of directors cannot hire applicants to fill the vacant positions.

These internal conflicts and vacancies have resulted, in our opinion, in a breakdown in internal controls and a general lack of management leadership. Further, we believe that effective financial management cannot be achieved until key management positions are filled.

CHAPTER 3

CONCLUSIONS AND RECOMMENDATIONS

CONCLUSIONS

The numerous weaknesses in the council's financial administration showed that there is a need for improvement in the council's controls over, and administration of, Federal grant funds. To a large degree, these needed improvements cannot be implemented until the council fills the vacancies in key management positions that existed at the completion of our review and resolves the matters causing dissension within the council. Correcting these weaknesses should also be of concern to HEW and OEO.

RECOMMENDATIONS

We recommend that the Secretary, HEW, and Director, OEO:

1. Emphasize to the council the need for establishing an acceptable system of control over, and administration of, grant funds.
2. Provide surveillance over, and assistance to, the council in developing such controls.
3. Take action to recover those expenditures not properly chargeable to Federal grants.
4. Monitor the council's operations to insure that vacancies in key management positions are filled and that problems causing dissension are resolved.

LOU FREY, JR.
5TH DISTRICT, FLORIDA

OSCAR F. JUAREZ
ADMINISTRATIVE ASSISTANT

COMMITTEES:
SCIENCE AND ASTRONAUTICS
INTERSTATE AND
FOREIGN COMMERCE

Congress of the United States
House of Representatives
Washington, D.C. 20515

April 14, 1972

OFFICES.

214 CANNON HOUSE OFFICE BUILDING
WASHINGTON, D.C.

AREA CODE 202, 225-3671

210 BREVARD AVENUE
COCOA, FLORIDA 32922

1703 NORTH MAIN STREET
KISSIMMEE, FLORIDA 32741

1040 WOODCOCK ROAD, SUITE 222
ORLANDO, FLORIDA 32803

Honorable Elmer B. Staats
Comptroller General of the United States
General Accounting Office
441 G Street
Washington, D.C. 20548

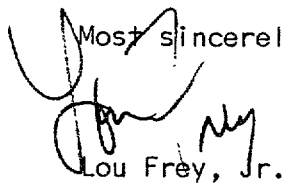
Dear Mr. Staats:

During the last year the Vero Beach Economic Opportunities Council has been plagued with problems administrative and others. Recently, however, charges of misuse of government funds and materials have been directed toward the EOC, and their administration of the headstart program.

These charges may or may not have any basis in fact. If there is any misused government funds then something should be done about it. If, on the other hand, there is no impropriety then the air should be cleared, of rumors and charges.

I would like you to look into this situation and determine whether or not the charges are true. Please keep me informed of your progress.

Most sincerely,



Lou Frey, Jr.

LFJr:im

APPENDIX II

SUMMARY OF FUNDS PROVIDED BY PROGRAM

FOR CALENDAR YEAR 1972

PROGRAM ACTIVITY:

Office of Economic Opportunity:	
Conduct and administration	\$ 35,430
Operation Outreach-Neighborhood Center	600
Family Planning	38,475
Alcoholism	30,000
Emergency Food and Medical Services	<u>5,260^a</u>
Total, OEO-funded programs	109,765
Department of Health, Education, and Welfare:	
Head Start	311,499
Department of Labor:	
Neighborhood Youth Corps program	<u>52,492</u>
Total, all programs	<u>\$473,756</u>

^aThis amount represents the balance at January 1, 1972, of a \$36,800 grant awarded in June 1970 and increased by \$10,000 in May 1971.