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Audit Of The Office Of
Economic Opportunity Grants
To The Central Nebraska Community
Action Program, Inc., Loup City,
Nebraska B-130515

BY THE COMPTROLLER GENERAL
OF THE UNITED STATES

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MARCH 24, 1972



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

MAR 24 1972

B-130515

Dear Mr. Martin:

Pursuant to your request of July 13, 1971, and a subsequent discussion with you, we are enclosing a report on our audit of the Office of Economic Opportunity grants to the Central Nebraska Community Action Program, Inc., Loup City, Nebraska. The scope of our audit is described on page 1 of the report. 36
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The corporation initially was funded in May 1966 and, as of September 30, 1971, had received grant funds from the Office of Economic Opportunity amounting to \$932,898, of which \$761,767 had been expended.

Our audit revealed deviations from Office of Economic Opportunity and corporation policies and instructions relating to payroll, travel, procurement, the control of cash, and nonexpendable property. Also many of these deviations were pointed out in an Office of Economic Opportunity audit report dated November 4, 1970.

Office of Economic Opportunity and corporation officials have not been given an opportunity to formally examine and comment on the matters discussed in this report. However, we brought these matters to the attention of the Office of Economic Opportunity Kansas City Regional Office officials and to the attention of corporation officials who agreed to take corrective actions.

We plan to make no further distribution of this report unless copies are specifically requested, and then we shall make distribution only after your agreement has been obtained or public announcement has been made by you concerning the contents of the report.

Sincerely yours,


Comptroller General
of the United States

Enclosures - 3

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The Honorable Dave Martin
House of Representatives

GENERAL ACCOUNTING OFFICE AUDIT OF
THE OFFICE OF ECONOMIC OPPORTUNITY GRANTS TO
THE CENTRAL NEBRASKA COMMUNITY ACTION PROGRAM, INC.

INTRODUCTION

Pursuant to a congressional request, we audited the financial records and procedures of the Central Nebraska Community Action Program, Inc. (corporation), Loup City, Nebraska, relating to grant funds received from the Office of Economic Opportunity (OEO).

The corporation was organized on September 14, 1965, to bring together all residents of Custer, Valley, Howard, Greeley, and Sherman Counties in an effort to ensure that all persons are provided the opportunity to obtain the skills, knowledge, and motivations necessary for them to become self-sufficient.

The corporation initially was funded by OEO in May 1966. As of September 30, 1971, the corporation had received grant funds from OEO amounting to \$932,898, of which \$761,767 had been expended. (See app.)

At September 30, 1971, corporation employees involved in OEO-funded programs consisted of an executive director, an administrative assistant, three program directors, a bookkeeper, three secretaries, and 16 others, including center directors, outreach workers, and coordinators.

Our audit was conducted at the OEO regional office in Kansas City, Missouri, and at the main office of the corporation in Loup City during the period October through December 1971. Our audit, which generally was limited to the financial transactions for the month of September 1971, was directed toward determining whether grant funds were being expended in accordance with the conditions of the grant and with applicable OEO policies and instructions. Financial transactions examined amounted to \$15,300. In addition, we evaluated the actions being taken by the corporation in response to recommendations in an OEO report, dated November 4, 1970, on an audit of the corporation's activities.

We reviewed applicable legislation, OEO policies and instructions, and the grant agreement. We also interviewed OEO regional and corporation employees. Our review did not include a determination as to the effectiveness of the corporation in fulfilling the objectives of the grant.

OEO and corporation officials have not been given the opportunity to formally examine and comment on the matters discussed in this report. However, we brought these matters to their attention.

AUDIT RESULTS

Our audit of the corporation's financial transactions revealed deviations from OEO policies and instructions and weaknesses in the accounting for and control over grant funds in relation to payroll and travel expenses, procurement of goods and services, accountability for nonexpendable property, and cash. Also many of these deviations were pointed out in the November 1970 OEO audit report. Although the corporation instituted procedures to correct these deficiencies, many of the procedures were not being followed at the time of our review.

PAYROLL AND RELATED COSTS

Our review of payroll and related costs of \$8,900 for the month of September 1971 and of the grantee personnel records showed deviations from OEO instructions and otherwise questionable practices with respect to

- limitation on starting salaries,
- approval of salary rates and increases,
- leave and severance pay practices, and
- internal control over payroll functions.

Limitation on starting salaries

OEO instructions require that grantees limit starting salaries of new employees, which exceed \$5,000 annually, to an increase of 20 percent or \$2,500, whichever is less, over their prior salary, unless higher salaries are specifically approved by OEO. In addition, OEO instructions require that the prior salaries of such employees be verified and that they be documented in the personnel files. We found that the corporation had not documented the prior salaries of the three employees who received starting salaries of \$5,000 or more.

The corporation's executive director told us that he would verify and document the prior salaries of these employees and that this requirement would be complied with in the future.

Approval of salary rates and increases

OEO instructions provide that grantees submit to the appropriate OEO regional office a salary schedule showing the current salary or salary ranges for each position. The corporation prepared such a salary schedule showing the basic

salary rates and step increases for each position; however, the salaries paid to seven of the corporation's 25 employees and many recent salary step increases did not correspond to this schedule.

The executive director said that he could not explain why the salary schedule was not being followed, but he stated that in the future pay increases would be kept in line with the schedule.

The corporation's personnel handbook provides that increases in salary not be more than one step and not be made more often than every 12 months, after a 6-month probation. Six employees, however, received two step increases in the 12 months subsequent to their probationary periods. In each case one of the step increases was identified as a merit increase, although the handbook does not authorize merit increases. The merit increases amounted to \$271 a month for the six employees. We found no documentation in the personnel files which could explain the basis for these merit increases.

We also noted that two employees had been given pay increases totaling \$120 a month because they had been assigned additional duties. At the time of our review in December 1971, these employees no longer were performing these additional duties but still were receiving the extra pay.

The executive director stated that the merit increases were justified and that such increases would be documented fully in the personnel files in the future. The director also explained that the two individuals receiving extra pay had been given other duties which entitled them to the extra pay.

Leave and severance pay practices

OEO guidelines provide that sick leave policies and procedures be established in accordance with local community practices. Without reference to the prevailing local practice, the corporation was allowing employees, upon termination of their employment, to convert accumulated sick leave to annual leave at the rate of 3 days of sick leave to 1 day of annual leave, not to exceed 5 days of annual leave. Under this practice five employees, whose employment was terminated during the period April 1, 1971, through September 30, 1971, converted a total of 36 days of accumulated sick leave to 12 days of annual leave. The corporation then paid these employees a total of \$239 for the converted leave. Such a practice is not allowable for Federal employees.

Although the corporation's personnel policies and procedures do not provide for the payment of severance pay, two employees whose employment was terminated for cause in April 1971 were paid severance pay, equivalent to their regular bi-monthly pay, totaling \$330. Although OEO guidelines contain no instructions pertaining to severance pay policies, the Federal Personnel Manual, for example, states that severance pay can be paid to employees who are laid off but not to employees who are separated for cause.

We discussed the above matters with the executive director. He told us that he did not know what the prevailing local practices were but that he would review the propriety of the corporation's practices with the board of directors and OEO regional office officials. OEO regional officials informed us that they would review the corporation's leave and severance pay practices and would take whatever action they felt was necessary.

Internal control over payroll functions

The November 1970 OEO audit report stated that the functions of preparing the payroll and of distributing payroll checks to employees had not been segregated properly to ensure adequate internal control. In January 1971 the corporation informed OEO that corrective action had been taken to segregate these payroll functions. In November 1971 we found, however, that one employee still was performing these duties.

The executive director stated that, although some of these functions had been assigned to other employees subsequent to the issuance of the OEO audit report, these employees gradually had ceased performing them. He stated that efforts were being made to train an additional employee, who would be independent of the bookkeeping functions, to perform a part of the payroll duties.

TRAVEL COSTS

OEO guidelines require full documentation of all travel costs and adherence by the grantees to the Standardized Government Travel Regulations.

We reviewed travel expenditures amounting to about \$2,600 for the month of September 1971 and found that there was a need for several improvements in the accounting for and control over travel expenditures.

As noted in the November 1970 OEO audit report, travel was not authorized in advance, although advance authorization

is required by OEO, and the purpose of the travel was not indicated on all travel claims. The corporation established procedures, subsequent to the issuance of the OEO audit report, requiring travel to be approved in advance.

We noted, however, that travel outside the five counties where the corporation operated had not been authorized in advance for 20 of 33 travel claims paid in September 1971. These claims amounted to \$469. On September 22, 1971 (prior to our review), the executive director issued a memorandum to all department heads stating that all out-of-community travel had to be approved in advance and that payment for such unapproved travel in the future would be disallowed.

Also we noted the following weaknesses.

- Corporation board members did not show odometer readings on claims for mileage to and from board meetings. Payments for such claims amounted to \$68 during September 1971.
- The corporation was not recording travel advances as receivables contrary to OEO guidelines. Instead, advances were recorded as expenses at the time the funds were advanced. Travel advances for September amounted to \$795. In all cases, however, advances were properly liquidated against employee travel claims.

We discussed the above weaknesses with the executive director who stated that the necessary corrective action would be promptly taken. We also brought to his attention three duplicate or otherwise improper payments totaling \$46 which he stated would be recovered.

In our follow-up review of the costs questioned in the OEO audit report, we noted additional costs which were questionable but which had not been included in the OEO report. During the period June 1969 through March 29, 1971, two corporation officials were reimbursed for mileage costs for use of their privately owned automobiles in commuting between their residences and their official duty station--the corporation's main office in Loup City. These costs amounted to about \$325. During the same period these two officials were reimbursed for mileage costs of about \$105 for use of their privately owned automobiles for travel between their residences and the corporation office when performing temporary duty en route.

The Comptroller General, in interpreting the applicable provision of the Standardized Government Travel Regulations has ruled (36 Comp. Gen. 450) that an employee bear the cost

of transportation between his place of residence and his place of duty at his official station. He has ruled also that only mileage by privately owned automobile in excess of that normally traveled between residence and duty station be allowable when temporary duty is performed en route from residence to duty station or from duty station to residence.

We discussed this matter with OEO regional officials, who stated that they would review the propriety of these costs and would take appropriate action.

PROCUREMENT

We reviewed corporation procurements of supplies, equipment, services, and other items, amounting to about \$3,800 for the period June through September 1971. We found that most of these transactions had not been adequately documented.

- Pursuant to a recommendation in the November 1970 OEO audit report, the corporation instituted a procedure to approve in advance all procurements over \$5. This procedure, however, generally was not being followed.
- The supporting documentation for procurements amounting to about \$76 had not been annotated to show that the goods or services had been received.
- Procurement transactions amounting to \$386 were not supported by an invoice or other document, or the documentation did not clearly show that the charge was an expense of the corporation.

The corporation instituted a procedure to record all long-distance telephone calls, as recommended in the November 1970 OEO audit report. Our review showed, however, that the long-distance telephone record for the main corporation office in Loup City was incomplete. For example, there was no record of 16 of the 122 long-distance calls that appeared on the September 1971 telephone bill. In addition, the records did not clearly show the reasons for many of the calls, did not show whether the calls had been made for authorized purposes, or did not show the names of the persons called. The records of long-distance telephone calls for six of the corporation's seven community centers in the five-county area were not being maintained, and the records which the other community center maintained were only partially complete.

We discussed the above matters with the executive director, and he assured us that procurements would be adequately documented in the future. A memorandum, dated November 11, 1971, was issued to all staff members by the executive director emphasizing the need for compliance with procedures regarding prior approval of all purchases. Also this memorandum informed the employees of the need to verify the receipt of goods and services procured and to annotate supporting documentation to show the verification. The executive director told us that a complete and accurate record of all long-distance telephone calls would be kept in the future and that a memorandum to this effect would be sent to all staff members.

CASH CONTROL

We noted some weaknesses in the management of cash in that (1) unneeded cash was not being placed in interest-bearing accounts and (2) blank checks were being signed in advance.

At the time of our review in October 1971, grant funds exceeding current operating needs and amounting to about \$93,000 were deposited in special non-interest-bearing accounts. Some of the funds were placed in these accounts in August 1970. OEO guidelines state that grantees, as a rule, should place grant funds which are excess to immediate needs in short-term secure investments. We estimate that about \$2,200 could have been earned in interest income from September 1970 through September 1971 had the corporation placed the excess funds in interest-bearing accounts. OEO requires that interest earned in this manner be returned to the Treasury of the United States.

This situation should be corrected, since the new OEO regulation governing fund advances to grantees has been implemented. Effective January 1, 1972, fund advances for grants of \$250,000 or less will be made monthly to meet operating needs. Previously fund advances generally were made at 3-month intervals at varying percentages of the grant amount on the basis of the length of the grant period.

Corporation instructions provide that checks be signed by two authorized persons. When it was known in advance that only one of the persons authorized to sign checks would be at the main office during a payroll period or a period when invoices were normally paid, an authorized person occasionally would sign checks in advance. After such checks were prepared, the second person would sign the checks. In the interest of maintaining the prescribed level of internal control, which requires dual approval of all

disbursements, checks should not be signed in advance before the amounts and payees have been determined and documented.

The executive director informed us that unneeded cash would be placed in interest-bearing accounts and that the practice of signing checks in advance would be discontinued.

DISPOSITION OF OTHER MATTERS
DISCUSSED IN OEO AUDIT REPORT

OEO recommended that the corporation establish individual property record cards and mark all nonexpendable property in accordance with OEO instructions. We found, however, that the corporation had not fully complied with these recommendations. We brought these matters to the attention of the executive director, and he stated that employees would be assigned the duty of establishing a complete record of all nonexpendable property in the near future.

Also the OEO audit report identified costs of \$3,297 during the period January 2, 1970, to September 4, 1970, as not being proper program expenditures and questioned the propriety of the outside business interest of certain employees. The outside business interest was termed "Pork Palaces" and involved the selling of mobile pig-farrowing units in the corporation's five-county area.

The OEO regional director decided to disallow \$2,259 of the questioned costs, since the corporation could not provide additional information to support them. The costs disallowed consisted of

- \$546 in salary and travel costs which related to the promotion of outside business interests,
- \$694 in salary increases over and above OEO's 20-percent limitation on annual increases, and
- \$1,019 in out-of-community travel expenses which had not been properly documented.

The corporation contested the disallowance of these costs, and, on September 15, 1971, a hearing was held before an OEO Board of Appeals. The Board decided that costs amounting to \$2,015 were to be disallowed, and the corporation was advised of this decision by the OEO regional director in a letter dated November 24, 1971. The costs allowed by the Board of Appeals consisted of \$244 in salary increases.

The question raised relative to the outside business interests of certain corporation employees was resolved, since these employees had divested themselves of their business interests.

OFFICE OF ECONOMIC OPPORTUNITY FUNDS GRANTED
TO THE CORPORATION AND RELATED EXPENDITURES FROM
MAY 1, 1966, TO SEPTEMBER 30, 1971

OEO FUNDS GRANTED	<u>\$932,898</u>
EXPENDITURES INCURRED:	
Salaries and wages	517,897
Travel	105,470
Consultant services	30,072
Space cost and rentals	9,619
Consumable supplies	25,280
Equipment	9,347
Other costs	<u>64,082</u>
Total	<u>761,767</u>
UNEXPENDED BALANCE	<u><u>\$171,131</u></u>