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

RELEASED

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SEP 5 1974

B-180594

CH The Honorable Joel T. Broyhill
R House of Representatives

Dear Mr. Broyhill:

On February 5, 1974, you asked us to investigate the possible misuse of Federal funds by the Northern Virginia Transportation Commission on behalf of a public official of Fairfax County, Virginia. You pointed out that, because allegations regarding the misuse of local government and State funds were under investigation and because the Urban Mass Transportation Administration (UMTA) made grants to the Commission, either directly or through the Metropolitan Washington Council of Governments (COG), the serious question of misuse of, irregularities in accounting for, or possible comingling of these Federal funds had been raised.

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In subsequent discussions, it was agreed that, because UMTA, the Auditor of Public Accounts for the Commonwealth of Virginia, and the certified public accounting (CPA) firm of Brown, Dakes, and Company, were all auditing the books of the Commission as of January 31, 1974, it would be acceptable to base our response on the findings of those organizations provided that we were satisfied with the quality of their work.

UMTA's audit addressed the expenditures of Federal funds, the Virginia State audit addressed the expenditures of certain State and local funds, and the CPA firm certified the adequacy of the Commission's financial statements as of January 31, 1974.

We reviewed the audit reports of the three organizations and discussed the results of the audits with officials from each organization. We also reviewed the working papers prepared by UMTA and the CPA firm and pertinent grant documents from UMTA. In addition, we contacted officials from the Commission and COG and did limited audit work at the Commission.

The Commission was created in 1964 by the Virginia General Assembly as a public agency to plan and assist in financing a regional transportation system for Northern Virginia with the State's participation in the Washington Metropolitan Area Transit compact. Late in 1973 and early in 1974, the Commission received critical publicity of its operations. Allegations were made of loose accounting practices, particularly the handling of expense accounts.

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In February and March 1974, the three audit organizations began their audits of the Commission's books. The CPA firm and the UMTA auditors made prior audits of the Commission's books for earlier periods and recommendations to improve the Commission's internal controls and accounting practices.

During the summer of 1973, the CPA firm was unable to make its annual audit of the Commission's books at June 30, 1973, because the records were not in condition for audit. The books had not been posted for several months. Accordingly, the Commission hired another accounting firm to bring the books up to date.

The Commission also hired a third CPA firm to make an in-depth study of the Commission's accounting system and hired another accountant. As a result of this study and the annual audit by the Commission's regular CPA firm, a number of recommendations were made to improve the Commission's internal controls and accounting system. Subsequently, a number of these recommendations were either implemented or planned for implementation. According to the reports on the most recent audits, a number of prior recommendations had not been carried out but all three audit groups expressed the opinion that the Commission had improved its operations over the past year.

All three audit reports issued on the Commission's operations as of January 31, 1974, contained additional recommendations for improvements, some of which have been implemented. Of these three reports, the Virginia State auditors' report was the most critical. They had confined their audit primarily to the Commission's operations which had been criticized and gave special attention to expenditures from the Planning and Administrative Fund, which receives its funds from State and local sources.

The State auditors found that:

1. Certain payments from Commission funds had been used for personal expenses or made available for trips which subsequently were not taken. Also, certain charges involving entertainment did not always contain sufficient information to permit a satisfactory audit.
2. Some reimbursement vouchers on travel advances had not been prepared promptly and had not provided sufficient information to permit a satisfactory audit, and some advances had been made for which a precise accounting was not apparent.

The State auditors said that, in their opinion, the Commission did not establish firm fiscal policies about travel, entertainment, and

other areas but left that responsibility up to the executive staff. They also said that this apparently contributed to the fiscal practices which had been the subject of criticism, and in the exercise of discretion the persons so entrusted may have been liberal in their practices.

The State auditors also pointed out that the Commission on March 7, 1974, in an effort to strengthen administrative policies and financial controls, adopted a resolution to control travel expenses, to place limits on travel advances, and to require prompt repayment.

The State auditors added that firm policies should be established regarding nonlocal travel and area entertainment and other functions. They said that these policies should relate particularly to spending funds for entertainment and promotional activities, such as are commonly borne by business organizations.

The UMTA auditors took exception to \$84,621 of the net costs of about \$5.5 million incurred through January 31, 1974, on the Shirley Highway Demonstration Project. This project was funded almost exclusively with Federal funds. The exceptions, however, were not related to travel and entertainment.

The \$84,621 UMTA questioned represented (1) \$44,092 for the cost of a bus which had not been repaired or disposed of after an accident 8 months before the audit and for which insurance claims for the Commission had not been made, (2) \$11,641 in unsupported costs charged against the project, (3) \$19,790 in costs which UMTA had not approved or which were unrelated to the project, and (4) \$9,098 in excessive indirect costs. Corrective actions by the Commission could result in UMTA's allowing a portion of the questioned costs to be charged against the project. For example, UMTA recommended disallowing the acquisition cost of the bus until settlement is reached and the appropriate adjustment to project costs can be made.

The Commission also had two other federally funded projects through third-party contracts with COG, which UMTA had designated as the single grant recipient for all technical study grants in the Washington Metropolitan area. Although the Commission had incurred costs which it believed were allowable under these contracts, it had not submitted the necessary documentation to COG for reimbursement. The Commission accountant told us that he was in the process of collecting the necessary documentation. As of January 31, 1974, these costs totaled \$31,006 and \$26,671, respectively, and were temporarily funded through the Planning and Administrative Fund which is supported by State and local funds.

The costs incurred under both of these projects were primarily for employee salaries and benefits. The CPA audit included a review of

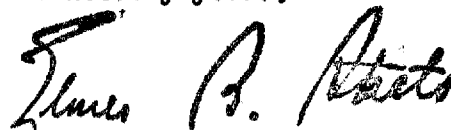
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payroll and the allocation of employee benefits to the various projects and funds. They did not question any of these charges.

The audits by the three audit organizations appeared satisfactory. The recommendations made by these organizations, if properly implemented, should strengthen the Commission's internal controls and accounting system. With the possible exceptions UMTA noted, it appears that Federal funds expended by the Commission were used within the scope of the Federal grants.

We did not discuss this report with the Commission. Its contents, however, are based primarily on the audit organizations' reports, and representatives of those organizations did discuss their reports with the Commission.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "Thomas A. Abate".

Comptroller General
of the United States