

## DOCUMENT RESUME

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D.C. Government Needs To Improve Controls over Receipt of Federal Grant Funds. April 3, 1978. 6 pp.

Report to Julian Dugas, City Administrator, District of Columbia; by Frank Medico, Assistant Director, General Government Div.

Contact: General Government Div.

Organization Concerned: District of Columbia: Office of Budget and Management Systems.

Although the District of Columbia made a commitment to Congress in 1972 to create a system to strengthen review and control of Federal grant funds received by the city, the city still does not effectively control the receipt of grant funds. The Mayor, in 1972, designated the Office of Budget and Management Systems (OBMS) as the focal point for grant activities and established some requirements intended to improve control over grants. OBMS in turn established additional requirements designed to improve control over grants, but some city agencies did not follow the requirements, and there were no procedures in effect to monitor whether the requirements were being followed. Some grant receipts were incorrectly recorded in the city's official financial records; other non-grant receipts were recorded as grant receipts. Some grant receipts were deposited long after they were received by the city and were not recorded in central accounting records until after they were deposited. There has been no assurance that all grant funds are deposited with the D.C. Treasurer or that the District's official accounting records and those of the grantee agencies are accurate and in agreement. OBMS should establish a monitoring system which will allow it to evaluate the extent of grantee-agency compliance with OBMS requirements and which will highlight the specific instances of agency non-compliance with the OBMS-grant requirements. (SC)

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UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

GENERAL GOVERNMENT  
DIVISION

APR 3 1978

Mr. Julian Dugas  
City Administrator  
District of Columbia  
Washington, D.C. 20004

Dear Mr. Dugas:

The Congress has expressed concern for sometime about the quality of the District's accounting system and control of Federal grants. In 1971 and 1976, GAO testified before congressional committees that the District's accounting system was deficient in several ways, causing inaccurate account balances and unreliable reports. The Congress requested the city to implement an accounting system which would produce reliable financial data on operations and in 1976 Congress established a Temporary Commission on Financial Oversight of the District of Columbia to improve the District's financial management system.

During hearings before the Senate Appropriations Committee in 1972, questions arose about the proper and prudent use of Federal grants by the District. In response to congressional concern, the District made a commitment to the Congress in 1972 to create a system to strengthen top management's review and control of Federal grant funds received by the city. This report deals with the City's efforts to control the receipt of such grant funds.

Five years have passed since the city made its commitment to Congress and the city still does not effectively control the receipt of Federal grant funds. The Mayor, by order dated March 14, 1972, designated the Office of Budget and Management System (OBMS) the focal point for grant activities, and established some requirements intended to improve control over grants. OBMS in turn established additional requirements designed to improve control over grants, but some city agencies did not follow the requirements, and there were no procedures in effect to monitor whether the requirements were being followed.

As a result, the District still cannot provide accurate totals of grant funds received. Some grant receipts were incorrectly recorded in the city's official financial records; other non-grant receipts were recorded as grant receipts. Some grant receipts were deposited long after they were received by the city and were not recorded in central accounting records until after they were deposited; one grant receipt for \$2.1 million was left on deposit in a non-interest bearing bank account for about a year and one-half, and was not recorded in either the agency's or central accounting records until after it was deposited with the D.C. Treasurer. Also, the District's Annual Financial Report for fiscal year 1977 excluded Federal grants to the District for public housing and urban renewal activities because according to the report, " \* \* \* it was not practical to accumulate accurate information for inclusion in these financial statements."

SCOPE OF REVIEW

We surveyed the District's accounting system for grant receipts at the central accounting and agency levels.

During fiscal year 1976 and the transition quarter ended September 30, 1976, the latest periods for which final figures were available, the District's operating funds totaled over \$1.6 billion. Federal grants accounted for about \$436 million of that amount. The District agencies which received the largest share of grants were:

	<u>Amount</u> (millions)	<u>Percentage of</u> <u>D.C. grants received</u>
Department of Human Resources (DHR)	\$ 196.4	45
Department of Housing and Com- munity Development (DHCD)	73.6	17
District of Columbia Public Schools (DCPS)	<u>48.8</u>	<u>11</u>
Totals	\$ <u>318.8</u>	<u>73</u>

We surveyed controls over the receipt of grant funds in the first two departments. Arthur Andersen & Co., a private certified public accounting firm, reviewed the control of grant funds in the District of Columbia Public Schools in 1976. (See p. 4.)

### BACKGROUND

The Mayor designated OBMS to carry out the City's commitment to strengthen controls over Federal grants. OBMS issued instructions to District agencies to strengthen controls over grants, and established within OBMS's Budget Operations Office a grant management unit to review and approve grant applications and to serve as a clearinghouse for the City's Federal grant activity.

OBMS instructions required the agencies to

- request the grantor agencies to forward grant fund checks to the D.C. Treasurer and to imprint certain identifying information on the checks. The D.C. agencies were required to provide OBMS with a copy of the request at the time the request was forwarded to the grantor agency.
- deposit any grant funds received immediately with the D.C. Treasury, even if the grant was not readily identifiable, in which case a special account was used to account for the funds until they were identified...
- reconcile their grant accounting records with the city's official central accounting records.

### NO OBMS SYSTEM TO ENSURE AGENCIES COMPLY WITH REQUIREMENTS

OBMS imposed specific requirements on D.C. grantee agencies which, if followed, would have strengthened controls over grant receipts. Some agencies did not always follow the requirements, however, and OBMS did not have a system to monitor grantee-agency compliance with the requirements.

Grant funds continued to be forwarded to various D.C. grantee agencies instead of to D.C. Treasurer; delays in depositing grant funds were encountered; and the agencies were not reconciling their accounts with the District's official central accounting records. As a result, there was no assurance that all grant funds were deposited with the D.C. Treasurer and that the District's official accounting records and those of the grantee agency were accurate and in agreement.

We tested 103 grant receipts at DHR, DHCD and the D.C. Treasurer; 36 receipts totaling about \$24 million were deposited within 4 to 49 working days after they were received. Difficulties in identifying the grant account to be credited were cited as reasons for the delays, notwithstanding an OBMS directive to immediately deposit such receipts in a special account with the D.C. Treasurer pending identification of the proper grant account.

Similarly, agencies were not complying with a requirement to reconcile their grant accounts with those of central accounting. We reconciled central accounting and DHCD records and found that, for a variety of reasons, central accounting balances for DHCD grants were incorrect. Coding errors, improper treatment of a transfer of funds, and incorrect recording of rental income as grant receipts accounted for the differences. These errors would have been disclosed if the required reconciliations had been made.

One DHCD grant receipt of \$2.1 million was deposited in a non-interest bearing commercial bank account and allowed to remain there for about 17 months. The \$2.1 million was withdrawn from the bank and deposited with the D.C. Treasurer and recorded in central accounting only after we brought the matter to DHCD's attention. Had DHCD advised OBMS of the request for funds, as required by an OBMS directive, and had OBMS established a system to monitor the request for and receipt of grant fund requests, the fact that the \$2.1 million had been received and deposited in a non-interest bearing commercial bank account could have been disclosed in a more timely manner.

#### The Arthur Andersen & Company report

Weaknesses in grant accounting are not limited to DHR and DHCD. The Arthur Andersen & Company's June 1976 report on its review of the District of Columbia's public schools stated that millions of dollars continued to be wasted due to significant and longstanding weaknesses

in the District's recordkeeping, internal controls, and management reporting systems, including those pertaining to Federal grant management.

Specific weaknesses relating to the control of grant funds included:

- Untimely deposits caused by ineffective procedures in handling and processing grant funds received.
- Lack of reconciliation of DCPS accounting records to central accounting records, causing inaccurate DCPS financial reports and incorrect cost claims.
- Failure to monitor requests for grant funds, preventing the DCPS from knowing what funds were requested or received.

#### CONCLUSION AND RECOMMENDATION

OBMS has established requirements to strengthen control over receipt of funds under Federal grant programs. These requirements have not always been followed, however, and OBMS has not established an effective system to monitor grantee-agency compliance with the requirements. Such a monitoring system is necessary if the District is to gain effective control of grant fund receipts.

We recommend that OBMS establish a monitoring system that will allow it to evaluate the extent of grantee-agency compliance with OBMS requirements and will highlight the specific instances of agency non-compliance with OBMS - grant requirements.

An OBMS official advised that new procedures will be developed to improve monitoring of grantee-agency compliance with requirements established to control receipt of grant funds.

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Copies of this report are being sent to the Mayor, City Council, Office of Budget and Management Systems, D.C. Auditor, Office of Municipal Audit and Inspection, the Department of Human Resources and the Department of Housing and Community Development.

We appreciate the courtesies and cooperation extended to our representatives during this survey. We would appreciate your comments on the action taken or planned on the matters discussed in this report.

Sincerely yours,

*Frank Medico*  
Frank Medico  
Assistant Director