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Financial And Program Management
Activities Of The Northern Arizona
Development Council
Flagstaff, Arizona B-130515

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

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

DEC. 7, 1972

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

B-130515

cltr
Dear Mr. Steiger:

This is our report on financial and program management activities of the Northern Arizona Development Council, Flagstaff, Arizona, a grantee of the Office of Economic Opportunity. On April 1, 1972, the council was redesignated as the Northern Arizona Council of Governments. Our review was made in response to your requests of June 4, 1971, and March 20, 1972, and subsequent agreements with your office.

The Office of Economic Opportunity; the Department of Health, Education, and Welfare; the council; and other affected parties have not been given the opportunity to formally examine and comment on the contents of this report. However, we discussed the contents of this report with officials of the regional offices of the Office of Economic Opportunity and the Department of Health, Education, and Welfare in San Francisco, California, and of the council and its delegate agencies; their comments were considered in preparing this report.

We plan to make no further distribution of this report unless copies are specifically requested, and then 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

cltr
The Honorable Sam Steiger
House of Representatives

C o n t e n t s

	<u>Page</u>	
DIGEST	1	
CHAPTER		
1	INTRODUCTION	5
	Council organization	5
	Programs administered	6
2	DEFICIENCIES IN FINANCIAL CONTROLS AND ADMINISTRATION	9
	Payroll and personnel matters	9
	Travel	11
	Procurement	11
	Consultant and contract services	13
	Non-Federal contributions	13
	Controls over cash	14
	Adequacy of financial reporting	15
	Corporation of Associated Flagstaff Neighborhood Councils	16
	Untimely action by OEO to resolve disallowed costs	17
	CPA audit of the council	18
	Actions taken by OEO, HEW, and the council	19
	Conclusions	19
3	NEED FOR IMPROVED MANAGEMENT CONTROLS OVER COUNCIL PROGRAMS	20
	Program accountability	20
	Weaknesses in monitoring council pro- grams	24
	Need for OEO program coordination	25
	Actions taken by OEO, HEW, and the council	25
	Conclusions	26
APPENDIX		
I	Schedule of OEO and HEW expenditures by the council from March 1971 through February 1972	29

ABBREVIATIONS

GAO General Accounting Office

HEW Department of Health, Education, and Welfare

OEO Office of Economic Opportunity

COMPTROLLER GENERAL'S REPORT TO
THE HONORABLE SAM STEIGER
HOUSE OF REPRESENTATIVES

FINANCIAL AND PROGRAM MANAGEMENT
ACTIVITIES OF THE NORTHERN
1 ARIZONA DEVELOPMENT COUNCIL, p. 2071
FLAGSTAFF, ARIZONA
2 Department of Health, Education, 22
and Welfare
Office of Economic Opportunity 957
3 B-130515

D I G E S T

WHY THE REVIEW WAS MADE

At the request of Congressman Sam Steiger, the General Accounting Office (GAO) reviewed financial and program management activities of the Northern Arizona Development Council, Flagstaff, Arizona.

GAO's review covered the council's financial administration of the Office of Economic Opportunity (OEO) and the Department of Health, Education, and Welfare (HEW) Head Start grant funds during program year 1971-72 (March 1971 through February 1972) as well as certain OEO and council controls over program operations.

Background

The council, a community action agency, was responsible for anti-poverty programs in five northern Arizona counties--Apache, Coconino, Mohave, Navajo, and Yavapai. During program years 1970-71 (March 1970 through February 1971) and 1971-72, its activities were financed by grants totaling about \$1.9 million from OEO and the Office of Child Development, HEW.

The council also received about \$768,000 from the Department of Labor to carry out programs from

September 1970 through September 1972.

On April 1, 1972, the council was redesignated the Northern Arizona Council of Governments (hereinafter also referred to as the council), to serve each of the original counties, except Mohave which became associated with another community action agency.

The council maintained financial records for all OEO-, HEW-, and Labor-financed activities under its control, except for an OEO family planning grant that was administered by the Coconino County Health Department.

OEO, HEW, the council, and other affected parties have not been given an opportunity to formally comment on this report. GAO discussed its findings, however, with officials of OEO's and HEW's regional offices in San Francisco and of the council and its delegate agencies.

FINDINGS AND CONCLUSIONS

Deficiencies in administration of grant funds

GAO found deficiencies in the council's adherence to OEO instructions regarding payroll and

DEC. 7, 1972

personnel matters, travel, consultant and contract services, and financial reporting. For example:

- Although payroll records and practices were generally adequate, 17 errors in sick leave balances, 14 errors in annual leave balances, and seven errors in compensatory time balances were noted in leave records for three pay periods in December 1971 for 26 of the council's 143 employees. Errors resulted in improperly increasing the leave earned by employees by 1,447 hours, but also resulted in erroneously recording 89 hours of leave to the employees' disadvantage. (See p. 10.)
- A review of \$11,756 of a total of \$57,389 in travel expenditures showed that expenditures of \$1,960 were not properly supported. Travel advances of \$1,444 had been incorrectly charged to travel expense accounts, and no provision had been made for recording employees' travel advances as receivables pending receipt of vouchers for authorized travel. (See p. 11.)
- Examination of documents supporting \$22,166 of \$24,471 recorded as expenditures for consultants or contract services showed that expenditures of \$17,581 were not supported by written contracts, contrary to OEO requirements. (See p. 13.)
- Non-Federal contributions were \$17,821 below the required minimum. For \$51,846 of non-Federal contributions reviewed, \$3,061 was not allowable and \$44,094 was not supported. (See p. 13.)

- Monthly financial reports submitted to OEO during program year 1971-72 contained inaccurate information because corrections made in financial records were not always included in reports to OEO. (See p. 15.)

Weaknesses in the council's financial administration appeared to be caused by inadequately trained financial personnel and insufficient monitoring and technical assistance from OEO.

Corporation of Associated
Flagstaff Neighborhood Councils

Two of Congressman Steiger's constituents questioned the council's administration of the corporation's non-Federal funds. The corporation operated three Head Start centers funded by HEW and non-Federal sources under an agreement with the council.

In analyzing council and corporation records and bank accounts, as well as in interviewing knowledgeable persons, GAO found that the corporation's non-Federal funds were properly accounted for and were used only for corporation program operations. (See p. 16.)

Untimely action by OEO to
resolve disallowed costs

OEO had not resolved the council's disallowed 1970-71 program year costs totaling \$10,376 which had been outstanding for 11 months. OEO instructions provide that all final disallowances be satisfied within 90 days of the date on which the disallowances became final. (See p. 17.)

Public accountant audit
of council grants

GAO examined workpapers of the certified public accountant who audited the council's grants during program year 1970-71 and found that the workpapers contained incomplete documentation regarding the audit's scope and the work performed. Also the accountant did not follow some of the procedures outlined in OEO's guidelines which are required to be used in audits of OEO grantees. (See p. 18.)

Management controls over
council programs

The council did not maintain an internal system for collecting and reporting nonfinancial program data. As a result, both OEO and the council had limited information for use in managing and measuring program performance. (See p. 20.)

OEO representatives participated in monitoring visits to determine the effectiveness of the council's programs funded by OEO. Several recommendations for improvements resulted from the visits, but GAO found no evidence that the council had car-

ried out the recommendations. Moreover OEO did not follow up on the council's lack of responsiveness to the findings and recommendations. (See p. 24.)

Need for OEO program coordination

OEO awarded \$75,000 to an Indian community action agency--the Office of Navajo Economic Opportunity--to operate an emergency food and medical services program for off-reservation Indians in Navajo County where the council also operated a similar program. OEO did not adhere to its procedures for coordinating grants, because it failed to notify the council of its plans to fund a similar program within the council's area. (See p. 25.)

Agency actions

The council advised GAO that it would correct deficiencies in its financial controls and administration of grant funds. OEO also advised GAO that an audit was planned during the latter part of 1972 to determine if the council had improved its financial management operations. (See p. 19.)

OEO and the council agreed to improve management controls over council programs. (See p. 25.)

CHAPTER 1

INTRODUCTION

Pursuant to requests from Congressman Sam Steiger dated June 4, 1971, and March 20, 1972, and subsequent discussions, we examined into financial controls and transactions and reviewed certain aspects of controls over programs of the Northern Arizona Development Council, a community action agency responsible for the conduct of antipoverty programs in five northern Arizona counties. The council's programs were funded by grants from the Office of Economic Opportunity (OEO); the Office of Child Development, Department of Health, Education, and Welfare (HEW); and the Department of Labor.

We reviewed the council's financial administration of OEO and HEW grants during its program year 1971-72 (March 1971 through February 1972). We also reviewed OEO and council controls over program operations to determine if they had the means to evaluate program effectiveness and efficiency.

We performed our review during the period January through May 1972 at the council's central office in Flagstaff; at the council's suboffices in the five counties; and at its delegate agencies. We also examined pertinent records at OEO region IX headquarters in San Francisco, California, and discussed the matters under review with cognizant OEO, HEW, council, and delegate agency officials.

COUNCIL ORGANIZATION

The council was established in April 1969 to coordinate and sponsor Economic Opportunity Act programs in the five northern Arizona counties--Apache, Coconino, Mohave, Navajo, and Yavapai. In March 1970 OEO recognized the council as the community action agency that would replace the five separate county agencies, and by August 1, 1970, the council had acquired full fiscal and program responsibility. On April 1, 1972, the council was redesignated as the Northern Arizona Council of Governments (hereinafter also referred to as the council), to serve each of the original counties, except Mohave which became associated with another community action agency.

The council's general policies were determined by its 15-member governing board consisting of three county supervisors from each of the five counties. The general administration of the council was the responsibility of a 15-member administrative board of five representatives each from the poor, private, and public sectors of the area served. Moreover each county had an advisory council with representation of all major ethnic groups in the communities served. An executive director was responsible for managing day-to-day operations. As of March 1, 1972, the council had 138 employees. The council maintained the financial records for all the OEO-, HEW-, and Labor-financed activities under its control, except the delegated family planning activity operated by the Coconino County Health Department.

HEW Head Start grantees are required to follow OEO policies and instructions relating to financial control and administration.

PROGRAMS ADMINISTERED

The council's first year of operation was program year 1970-71 (March 1970 through February 1971). Although it did not acquire full control of the programs from the five counties until August 1970, the council assumed responsibility for the programs retroactively to March 1970. Various activities of the council have been financed with Federal funds under HEW and OEO grants amounting to about \$1.9 million for the period March 1970 through February 1972, as shown below. A schedule of OEO and HEW expenditures by the council for these programs for the 1971-72 program year is included as appendix I.

<u>Program activity</u>	<u>Expenditures by program year</u>	
	<u>1970-71</u>	1971-72 (note a)
OEO:		
Community Organi- zation	\$172,336	\$271,063
Conduct and Ad- ministration	182,383	82,396
Emergency Food and Medical Services	129,543	60,876
Legal Services	53,595	52,171
Family Planning	29,170	40,733
Special Youth	20,221	16,556
Senior Opportunities and Services	18,129	17,056
Adult Basic Education	17,490	15,816
Housing Planning	13,673	16,795
Community Action		-
Agency Planning	32,729	
Bail Bond	<u>162</u>	-
Total OEO program	<u>669,431</u>	<u>573,462</u>
HEW:		
Head Start program	<u>320,120</u>	<u>307,194</u>
Total OEO and HEW programs	<u>\$989,551</u>	<u>\$880,656</u>

^a Amounts are subject to final-audit adjustments.

The council subcontracted parts of these programs to delegate agencies, as follows:

<u>Delegate agency</u>	<u>Program activity</u>	<u>Expenditures by</u> <u>program year</u>	
		<u>1970-71</u>	<u>1971-72</u>
Corporation of Associated Flagstaff Neighborhood Councils	Head Start	\$ 60,510	\$ 84,755
Coconino County Legal Aid	Legal Services	53,595	52,171
Coconino County Health Department	Family Planning	29,170	40,733
Institute for Human Development	Adult Basic Education	<u>-</u>	<u>5,395</u>
Total		<u>\$143,275</u>	<u>\$183,054</u>

The council also received funding from Labor to carry out certain programs from September 1970 through September 1972, as follows:

<u>Program activity</u>	<u>Amount</u>
Neighborhood Youth Corps	\$474,090
Operation Mainstream	<u>293,920</u>
Total	<u>\$768,010</u>

CHAPTER 2

DEFICIENCIES IN FINANCIAL CONTROLS

AND ADMINISTRATION

We audited the financial controls and transactions on a test basis and found that the council was not fully adhering to OEO policies and instructions relating to personnel, payroll, travel, consultant and contract services, procurement, accountable property, non-Federal contributions, and other matters. The council's weaknesses in financial administration appeared to be caused by a lack of adequately trained financial personnel and insufficient monitoring and technical assistance from OEO.

We also found that OEO had not taken timely action to resolve the issue of certain council expenditures totaling \$10,376 that were disallowed by OEO as charges to the OEO grant.

To test the propriety of expenditures and financial transactions, we examined into \$57,946 of \$880,656 in Federal expenditures and \$51,846 of \$182,926 in non-Federal expenditures for program year 1971-72.

We believe that the matters discussed in this report show a need for closer OEO monitoring of the council's operations, including followup action to insure that weaknesses are corrected.

PAYROLL AND PERSONNEL MATTERS

Payroll and related costs amounted to about \$649,000, or 74 percent of total OEO and HEW funds expended during program year 1971-72. Our examination covered \$18,405 of the total payroll and related costs.

OEO instructions require grantees to maintain records of all personnel actions and cumulative leave records for each employee showing earned, used, and balances available of annual, sick, and other types of leave.

We reviewed the payroll and leave records for three pay periods in December 1971 for 26 of the 143 employees on the rolls. We also examined into the starting salaries of 13 full-time employees hired during the period August 1, 1970, through February 29, 1972, and the termination payments made to 20 employees whose employment was terminated during January and February 1972. We found that payroll records and practices were generally adequate; however, there were some deficiencies, as follows:

- The leave records examined contained 17 errors in sick leave balances, 14 errors in annual leave balances, and seven errors in compensatory time balances. These errors resulted in improperly increasing the leave earned by employees by 1,447 hours, but also resulted in erroneously recording 89 hours of leave to the employees' disadvantage. We also found that one of 20 employees whose employment had been terminated and whose records were examined received an overpayment of \$543 for 165 hours of unearned annual leave. Most of the errors were attributed to a change from manual to computerized recordkeeping. Council officials were aware that errors existed in the leave records but had not taken adequate steps to correct them.
- OEO instructions require confirmation of prior salaries of new employees and OEO approval of salary increases within a 12-month period of more than 20 percent or \$2,500, whichever is smaller, for employees whose salaries are over \$5,000. We found two salary increases, made without OEO approval, which were greater than the 20 percent allowed and which resulted in excess salary payments of \$700 in program year 1971-72. The personnel files of seven of 13 employees who had starting salaries in excess of \$5,000 did not contain information on previous salaries, nor was there any evidence that, as required by OEO, the prior salaries of the 13 had been verified.
- Contrary to principles of good internal control, the council's payroll clerks who prepared the payroll also received the checks immediately after they were

signed and helped distribute them to the staff. Good internal control procedures require the separation of duties pertaining to the preparation and distribution of payroll checks.

TRAVEL

We reviewed \$11,756 of \$57,389 in OEO and HEW funds reported as travel expenditures during program year 1971-72 and found that expenditures of \$1,960 were not adequately supported.

Travel payments that were not supported in accordance with OEO instructions were as follows:

- Per diem claims totaling \$1,215 did not show the period of travel, including times of departure and return, which were the basis for computing per diem.
- Travel vouchers for out-of-town travel totaling \$500 had no supporting travel authorizations.
- Mileage claims of \$245 were not properly supported by odometer readings.

Travel advances

Travel advances of \$1,444 had been charged to travel expense accounts instead of to employee receivable accounts pending subsequent offset against travel expense vouchers. No provision had been made in the council's accounting system for recording employees' travel advances as receivables. The practice of recording travel advances as expenditures results in the loss of accountability for funds advanced. OEO instructions require that all payments for travel be supported by properly approved invoices. At the close of our onsite review in May 1972, the council had not determined the total of travel advances outstanding.

PROCUREMENT

We reviewed transactions totaling \$5,619 of \$18,981 in OEO and HEW funds for purchases of equipment (\$414) and supplies (\$18,567) during program year 1971-72 and found

that appropriate requisitions, purchase orders, and receiving reports generally had not been prepared, contrary to OEO instructions. For example:

--Requisitions had not been prepared for purchases valued at \$4,405.

--Purchase orders had not been prepared for purchases valued at \$3,669.

--Receiving reports had not been prepared for equipment and supplies valued at \$5,301.

We found that the accounting and physical control over the council's property was inadequate because asset accounts for nonexpendable property had not been maintained.

CONSULTANT AND CONTRACT SERVICES

We examined program year 1971-72 documents supporting \$22,166 of \$24,471 recorded as expenditures for consultants and other contract services and found that expenditures of \$17,581 were not supported by written contracts, contrary to OEO requirements. Most of the expenditures were for medical and dental services provided to children enrolled in the HEW Head Start program and for data processing and accounting and computer consultant services.

OEO guidelines provide that grantees use written commitments or OEO standard form contracts when obtaining professional or technical services. Such agreements should specify the nature and terms of the services to be provided.

Of the expenditures that we reviewed, \$4,312 was for data processing services for which there was a contract. There were no contractual agreements with physicians, dentists, and medical institutions for expenditures totaling \$9,979. Council officials stated there were no contracts, because the variety of medical services provided to Head Start children made contractual arrangements impractical. In reviews of other community action agencies, we noted that contracts for similar services limited the expenditures for each child and described the services to be performed.

The council had no contractual agreements for \$4,563 in accounting and computer consultant costs, and there were no agreements for \$3,039 in payments for adult basic education teachers, janitorial services, and various other services.

NON-FEDERAL CONTRIBUTIONS

The Economic Opportunity Act requires grantees to provide non-Federal contributions, either in cash or in kind, of at least 20 percent of total costs, unless a waiver is obtained from OEO. OEO guidelines provide that non-Federal contributions be recorded in the financial records on a monthly basis and be documented properly.

During program year 1971-72, the council recorded non-Federal contributions of \$110,224 and \$72,702 for programs

funded by OEO and HEW, respectively. On the basis of Federal expenditures during the same time period, non-Federal expenditures were below the required minimum for OEO- and HEW-funded programs by \$13,724 and \$4,097, respectively.

We reviewed non-Federal contributions totaling \$51,846 and found contributions of \$3,061 which we considered to be unallowable, as shown by the following examples.

--Consulting services valued at \$2,600 were provided to a Head Start center during the prior program year but were recorded as program year 1971-72 contributions.

--Volunteer help was valued at \$3 an hour instead of \$1.75 an hour as provided for in the budget submitted to HEW. The excess valuation was \$158.

In addition, we found that non-Federal contributions of \$44,094 were not properly supported. About \$28,780 represented the value of donated space for which there was insufficient information on the basis used to compute the value. Contributions of \$12,621 in personal services were not supported by properly approved time and attendance records showing hours worked by individuals. For example, there were no time sheets or similar information, contrary to OEO requirements, supporting a claim for 320 hours of legal services at \$16 an hour (\$5,120).

Non-Federal contributions were not recorded in appropriate accounting records on a monthly basis, contrary to OEO requirements.

CONTROLS OVER CASH

The council did not reconcile the bank statements with its cash records each month, contrary to OEO requirements and good bookkeeping practices. For example, the bank statements for the months of January through March 1972 were not reconciled until May 1972. Timely reconciliations are necessary for detecting errors in either the bank's or the council's accounting records as well as for minimizing any losses from irregularities.

Contrary to OEO instructions, four of seven petty cash funds that we reviewed were not limited to the amount expected to be spent in a single month. The petty cash funds included moneys from OEO, HEW, and Labor. One fund was reimbursed only three times (about \$40 each time) during an 8-month period. Such a practice results in petty cash expenditures' not being recorded promptly.

ADEQUACY OF FINANCIAL REPORTING

The monthly financial reports submitted to OEO during program year 1971-72 contained inaccurate information. If properly prepared, the financial reports assist council and OEO officials in determining whether Federal and non-Federal expenditures are consistent with program objectives and authorized funding.

Certain differences existed between amounts reported to OEO and amounts recorded in the council's accounting records. For example, the report to OEO for February 1972 was based on figures in a voucher register and showed Federal-share expenditures of \$575,481 compared with \$587,135 recorded in the general ledger control accounts as of the same date.

A council official advised us that some of the general ledger control accounts included costs from a previous program year and that other control accounts did not include corrective journal entries (adjustments) prepared by the council's certified public accountant (CPA).

In our review of expenditures totaling \$57,946, we found that \$11,010 had been charged to incorrect expense accounts. Most of the misclassified costs were posted to closely related expense accounts. For example, \$8,053 for food was charged to "Beneficiary Costs" and "Other Expenditures" accounts instead of to the applicable "Beneficiary Food" account.

OEO guidelines define accounts to be used to record financial transactions. Expenditures that are properly classified can be useful to council officials in managing programs and preparing budget requests.

CORPORATION OF ASSOCIATED FLAGSTAFF
NEIGHBORHOOD COUNCILS

Two of Congressman Steiger's constituents raised questions concerning the council's administration of the corporation's non-Federal funds and the transfer of funds by the council between its many bank accounts. In analyzing council and corporation records and bank accounts, as well as in discussing the matter with knowledgeable persons, we ascertained that the corporation's non-Federal funds were properly accounted for and had been used only for corporation program operations.

During part of program year 1971-72, the council had control over two bank accounts containing corporation non-Federal funds. The first account was initially under the control of the former treasurer of the corporation from the time of its inception in March 1969 through December 1970. During that time the account contained non-Federal funds only, most of which were contributions from the United Fund. In January 1971 control over the account was transferred to the council, and all checks drawn on the account were to be cosigned by council and corporation officials. From January through July 1971, the council deposited HEW funds in the account, thereby commingling Federal and non-Federal funds. In February 1971 the council opened a second corporation bank account for non-Federal funds only. All checks drawn on this account also were to be cosigned by council and corporation officials.

In September 1971 the corporation's first account was closed by the council and the balance of \$3,799 was transferred to the corporation's second non-Federal cash account. However, included in the amount transferred was \$1,644 in HEW funds. After this was brought to the attention of council and corporation officials by the council's CPA, they transferred the \$1,644 to an HEW account on June 1, 1972.

Due to various problems the council did not receive OEO funds for program year 1971-72 until May 20, 1971, almost 3 months after the beginning of the program year. In the interim the council financed program operations with carryover funds from the prior program year; however, due

to the insufficiency of carryover funds, the council overdrew some of its bank accounts.

Prior to July 1971 the council's fiscal officer maintained a separate bank account for each OEO program, as well as for HEW, council, and Labor programs, using as many as 28 accounts simultaneously at the same bank. Finding it difficult to manage so many accounts during the deficit-spending period, the council's fiscal officer transferred funds between several of the council's bank accounts to cover overdrafts. One of the corporation accounts over which the council assumed control was temporarily overdrawn in March 1971. All checks drawn on this account were authorized by corporation officials.

Most of the 28 bank accounts which were in use during the deficit-spending period were closed in July and August 1971, following the resignation of the council's fiscal officer.

As part of his audit of program year 1971-72, the council's CPA examined into all the accounts and fund transfers. He found that all funds, including the corporation's non-Federal cash contributions, were accounted for and that there were no shortages or other irregularities.

UNTIMELY ACTION BY OEO TO RESOLVE DISALLOWED COSTS

As of June 1972 OEO had not resolved disallowed 1970-71 program-year costs totaling \$10,376 that had been outstanding for 11 months.

OEO may disallow certain expenditures made by a grantee if they are not authorized by grant provisions. OEO instructions provide that such disallowances be settled within 90 days of the date on which the disallowance became final.

In May 1971 OEO informed the council that, on the basis of an OEO audit, the OEO regional auditor was recommending that \$10,376 in Federal-share expenditures and non-Federal contributions be disallowed. The council did not respond to the notice of audit finding; therefore, on July 1, 1971, OEO informed the council that the disallowance had become

final and requested that a check for \$10,376 be submitted to OEO. As of June 1972 the disallowance still had not been resolved.

OEO advised the council on January 17, 1972, that, on the basis of the CPA's audit of program year 1970-71 grants, the OEO regional auditor was recommending that, in addition to the disallowed amounts described above, \$10,439 of unauthorized overexpenditures from program accounts be disallowed. As of June 1972 OEO had not decided if the recommended disallowance should become final.

CPA AUDIT OF THE COUNCIL

We found that the CPA's workpapers did not contain complete documentation regarding the scope of his review and the work he performed. Therefore we were unable to fully evaluate the adequacy of his audit work on OEO and HEW program year 1970-71 grants.

At the time of our review, the council's CPA was auditing OEO and HEW program year 1971-72 grants. We discussed the CPA's audit of program year 1970-71 grants with him and examined his workpapers to ascertain the scope of his work.

OEO has issued audit guidelines to assist accountants in understanding the special requirements for auditing OEO grants. OEO does not intend that the guidelines be a complete manual of audit procedures or supplant the accountants' professional judgment as to the work required to meet generally accepted auditing standards.

The CPA stated that he had not followed some of the audit procedures outlined in the OEO audit guide but had performed the work necessary to satisfy himself that the council's financial statements were correct and its accounting procedures and controls adequate. It was his opinion that a complete set of workpapers would have been unnecessary and too costly, since he performed most of the work himself. Professional standards require that a CPA prepare working papers that are sufficient to support his opinion and his representation as to compliance with auditing standards.

ACTIONS TAKEN BY OEO, HEW, AND THE COUNCIL

Council officials promised to correct the deficiencies in financial controls and administration. The council's executive director attributed the deficiencies to personnel problems in the council's fiscal office, which culminated in the resignation of the fiscal officer in June 1971. Thereafter the fiscal office was managed by an acting fiscal officer with the help of a CPA who provided consulting services. In June 1972, subsequent to our review, the council was in the process of hiring a fiscal officer.

The regional auditor of OEO region IX, in responding to our review observations, has stated that the council's grants will be audited during the latter part of 1972 to determine if the council has adequately corrected the financial management deficiencies noted in our review. An HEW official has advised us that HEW will contact OEO and request that its audit review of the council, planned for late 1972, include an evaluation of the council's administration of HEW funds.

CONCLUSIONS

We believe that the matters discussed in this report show a need for the council to improve its financial management practices and to make greater effort to comply with Federal grant requirements. In addition, OEO needs to monitor the council's financial operations more closely to assure itself that deficiencies in financial control are identified and corrected.

CHAPTER 3

NEED FOR IMPROVED MANAGEMENT CONTROLS

OVER COUNCIL PROGRAMS

Improvements are needed in OEO and council information systems to provide for the identification, measurement, and interpretation of program results and for comparing these results to program objectives. Our review showed that the council had not received sufficient information from its offices and delegate agencies for its officials and board members to use in managing and evaluating program performance. Likewise OEO had not received sufficient information about council programs to evaluate the effectiveness of the programs in achieving objectives. We also noted a lack of coordination by OEO of the two emergency food programs for which it granted funds in the council's area of interest and operation.

PROGRAM ACCOUNTABILITY

The council did not maintain an internal reporting system during program year 1971-72 for collecting and reporting data on program activities. As a result, both OEO and the council had limited information for use in managing and evaluating program performance.

For example, during program year 1971-72 the council received limited information on the activities of 26 community aides and organizers whose principal duties were to assist neighborhood groups in organizing, and becoming involved in, community improvement activities. We found that most of the logs prepared by the aides and organizers were illegible and incomplete, which made it difficult for council management to be knowledgeable of the activities of its aides and organizers.

Community aides and organizers advised us that they spent little time in organizing neighborhood groups. They stated that most of their time was devoted to providing individuals with direct social services--such as transporting them to hospitals, welfare agencies, and schools--and to visiting sick persons.

OEO had a management information system for its grantees to collect and report program data systematically. Due to several problems with the system, OEO ordered a phasing out of the system's requirements in April 1971 and planned to develop a new national system during fiscal year 1972. OEO headquarters advised its regional directors to issue instructions to grantees requiring interim reporting on a 6-month or annual basis geared to the grantees' program year. OEO region IX never issued such instructions. Instead, as part of the new OEO grant application procedures which became effective January 1, 1972, OEO region IX began encouraging each community action agency to develop its own program-reporting system. The council was first advised of this policy in February 1972. As of June 1972 the council had not devised an internal program-reporting system.

OEO and council officials advised us that no data regarding the council's program accomplishments during program years 1970-71 and 1971-72 had been requested or received by OEO, except for certain data on legal services and emergency food services, as discussed below.

Legal Services Program

Since its inception in August 1970, the council has delegated its Legal Services Program to Coconino County Legal Aid, a nonprofit Arizona corporation wholly funded by OEO and the council. The objective of the program is to provide legal advice and representation to persons considered too poor to afford such services.

During program years 1970-71 and 1971-72, Coconino County Legal Aid submitted standard quarterly progress reports to the council's central office and to OEO. The reports provided such information as the number and types of cases handled, participant characteristics, and legal staff composition. We reviewed the four reports for the year ended December 31, 1971, and found several discrepancies. For example, the report for the quarter ended September 30, 1971, showed the number of legal cases pending as 75 rather than 100. None of the reports submitted in calendar year 1971 were statistically correct. Also the December report indicated that 81 of 95 clients had family incomes above

the eligibility level, although our review of selected records showed that most clients had incomes below the eligibility level. The Coconino County Legal Aid director, who assumed his office in November 1971, agreed that the December report was erroneous and advised us that he would take action to issue a revised report. He stated that his staff evidently needed guidance in preparing the quarterly reports.

The council's executive director stated that he had not reviewed the reports and therefore was not aware that discrepancies existed. He believed that the regional OEO Legal Services Division should be responsible for monitoring the effectiveness of the Coconino County Legal Aid, since the council did not have the expertise to monitor and evaluate the program's legal activities.

A representative of the regional OEO Legal Services Division informed us that the quarterly reports were used primarily to see what types of legal cases were being handled and that much of the data and computations in the reports were not used. As a result, OEO did not question the errors in the Coconino County Legal Aid's reports. She mentioned also that the quarterly report was used as one of the sources of information to determine whether a program should be refunded and to review and use prior to making a personal inspection of a legal-aid grantee.

Emergency Food and Medical Services Program

During program year 1971-72, the council operated a food program for the stated purpose of:

"*** influencing food programs in such a way as to make adequate quantities of nutritious foods available to all poor persons in a non-demeaning manner."

Food and medical services were to be provided by the council on an emergency basis to persons unable to obtain these services from other sources.

Program guidelines require that grantees submit monthly reports of activities to OEO. During program year 1971-72, the council's central office received about half of the required monthly reports from its county offices. OEO received only five reports from the council, only one of which summarized the activities of all five county offices. Four reports related to the activities of only the Mohave County office. The one complete report to OEO covering November 1971 was in response to an OEO reminder that reports were required. The council submitted no further reports, and as of June 1972 OEO had not followed up with the council on this matter.

OEO and council officials attributed the lack of reports to uncertainty as to the type of report desired. OEO informed emergency food grantees in April 1971 that a new quarterly report would be used in place of the monthly report. The council was given no further guidance on this matter until November 1971 when OEO issued a letter requesting monthly reports as required by OEO guidelines.

Delegate agency programs

During program year 1971-72, the council delegated the responsibility for operating three OEO programs (Legal Services, Family Planning, and Adult Basic Education) and one HEW program (Head Start) to four agencies. The contracts between the council and the delegate agencies did not specify the types or frequencies of program reports and evaluations that should be submitted.

For example, the contract between the council and the corporation for the conduct of the corporation's Head Start program did not require the corporation to prepare reports or evaluations periodically. Therefore, the corporation submitted no written reports to the council, nor did it prepare any reports for its own board of directors regarding the activities of its three Head Start centers. Moreover the contract did not contain such basic information as the number of children expected to participate in the program, nor the types of data and records which should be maintained.

WEAKNESSES IN MONITORING COUNCIL PROGRAMS

In May and July 1971, OEO representatives participated in two monitoring visits to the council and its five county offices to review the council's ability to meet the needs of low-income residents of the five counties and to look into the effectiveness of the programs which were then being funded. Several recommendations for improvements resulted from the visits, including the establishment of (1) an agencywide comprehensive training program and (2) a management information system. We found no evidence that the council had considered or implemented the recommendations. Moreover OEO made no effort to follow up on the council's responsiveness to the findings and recommendations.

In December 1970 an evaluation team from the Auerbach Corporation, under a contract with the OEO Office of Legal Services in Washington, D.C., evaluated the council's Legal Services Program operated by the Coconino County Legal Aid. The evaluation team, which rated the Legal Services Program as "Fair," noted several deficiencies and recommended that certain actions be taken to improve program operations.

Following are examples of the deficiencies included in the evaluation report.

- There was no formal or informal coordination of effort between the staff attorneys and the administrative aide.
- The community education program on legal rights, consumer fraud, and drug abuse was not reaching the poorest segments of the communities.
- There had not been any meaningful activity in the area of economic development.
- The office management procedures concerning record-keeping were disoriented, missing, or incomplete.

There was no evidence that representatives of the OEO Office of Legal Services in Washington, D.C., or the regional OEO Legal Services Division had followed up to determine if the deficiencies cited in the Auerbach report had been corrected.

NEED FOR OEO PROGRAM COORDINATION

In July 1971 OEO awarded a grant of \$75,000 to the Office of Navajo Economic Opportunity to be delegated to the Dene Council of Navajo County, Inc., to operate an emergency food program for off-reservation Indians in Navajo County. The Dene council was established to operate certain community action programs. The council also operated an emergency food program in Navajo County, and both program offices were located within a half mile of each other in the city of Winslow. An OEO representative informed us that funds were provided to the Dene council because the council had not adequately served the off-reservation Navajo Indians in Winslow.

Council officials advised us that they knew nothing of OEO's plans to fund the Dene council until after the grant had become effective in July 1971. In a letter dated November 1, 1971, to OEO, the executive director expressed concern about the need for the council to coordinate its program with the Dene council program, because both programs served the same area. In response to the council's inquiry, OEO advised the council of the Dene council's grant on November 9, 1971. OEO suggested that a system of emergency food program coordination be devised by the council and the Dene council. However, by the end of December 1971, the Dene council reportedly had spent most of its emergency food funds.

OEO did not adhere to its procedures for coordinating grants in that it failed to notify the council of its plans to fund a similar program within the council's area of interest and responsibility. Also the Dene council made no mention of the council's emergency food program in the grant application documentation required by OEO.

ACTIONS TAKEN BY OEO, HEW, AND THE COUNCIL

Following the completion of our onsite work, OEO and the council prepared a memorandum of agreement in June 1972 defining the problems noted during our review and making firm commitments to move toward resolving those problems.

- OEO will schedule a monitoring visit once a month and for a period of not less than 3 consecutive days.
- The council will develop an internal information system which will be fully operative on or before October 15, 1972.
- General reporting and monitoring procedures will be standardized and in effect by October 15, 1972.
- Community aide and organizer job descriptions will be redefined to more accurately relate assigned duties to program objectives.
- Community aides and organizers will be retrained to provide them with a new orientation and additional skills required for redefined duties.

Council officials advised us that they would increase their controls over delegate agencies' programs by using more definitive contracts and providing for data collection, reporting, and monitoring.

In regard to program coordination, the council and the Office of Navajo Economic Opportunity entered into a delegate agency contract with the council to administer the remaining funds of the emergency food grant previously administered by the Dene council.

Regarding the administration of Head Start operations, an HEW official stated that HEW would give the council's performance close scrutiny as part of the "pre-review" process before approval of HEW funding for the next Head Start program year.

CONCLUSIONS

We believe that there is a need for an adequate management information system by which the council's program activities can be identified, measured, and interpreted. The council should monitor its program operations closely to determine if program objectives are being accomplished.

In our opinion OEO's effectiveness in evaluating the council's program activities on two occasions during program

year 1971-72 was greatly limited by the fact that OEO did not follow up to determine if the reported deficiencies had been corrected.

We believe that, if OEO's and the council's plans to monitor and develop an internal reporting system are properly implemented, OEO and the council will be better able to compare program performance to objectives and to evaluate program effectiveness.

SCHEDULE OF OEO AND HEW EXPENDITURES BY THE COUNCIL

FROM MARCH 1971 THROUGH FEBRUARY 1972 (note a)

<u>Cost category</u>	<u>OEO</u>	<u>HEW</u>	<u>Total</u>
Personnel and related costs	\$431,369	\$218,040	\$649,409
Travel	44,749	12,640	57,389
Space costs and rent	25,755	13,341	39,096
Consultant and contract services	11,740	12,731	24,471
Supplies	9,821	8,746	18,567
Equipment purchased or leased	7,446	1,195	8,641
Other costs	<u>42,582</u>	<u>40,501</u>	<u>83,083</u>
Total	<u>\$573,462</u>	<u>\$307,194</u>	<u>\$880,656</u>

^aThe expenditures are subject to final-audit adjustments.