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Status Of Funds Unaccounted For By Antipoverty Agencies In New York City Office Of Economic Opportunity B-130515

BY THE COMPTROLLER GENERAL OF THE UNITED STATES

AUG. 16. 1971

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

B-130515

Dear Mr. Murphy:

This is our report on the funds of \$7.8 million that could not be accounted for by the New York City antipoverty agencies. Our review was made pursuant to your request of December 14, 1970.

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

The Office of Economic Opportunity and the City of New York have not been given an opportunity to formally examine and comment on the report.

Sincerely yours,

Acting

Ray Kellman
Comptroller General
of the United States

The Honorable John M. Murphy
House of Representatives

STATUS OF FUNDS UNACCOUNTED FOR BY
ANTIPOVERTY AGENCIES IN NEW YORK CITY
OFFICE OF ECONOMIC OPPORTUNITY

On December 14, 1970, the New York Daily News reported that sources in the Office of the Comptroller of the city of New York stated that about \$8 million, including \$6 million of Federal funds, could not be accounted for by New York City antipoverty agencies. The article stated that the funds in question had been provided to delegate agencies under the antipoverty program during the period July 1, 1965, to September 30, 1968.

Congressman John M. Murphy referred the newspaper article to us and asked that we examine into the matter. As a result of the Congressman's request and later discussions with him, we inquired into

- the overall status of funds for the antipoverty programs in the city,
- the amount of funds unaccounted for during the program periods 1965 through 1968,
- the causes contributing to the unaccounted-for funds, and
- the actions being taken to preclude similar problems in the future.

Congressman Murphy asked us also to identify specific antipoverty agencies that were unable to account for funds advanced to them during the above period. The names of these agencies with the largest unaccounted-for balances are presented in appendix II.

The information in this report was obtained from (1) discussions with officials of the Office of Economic Opportunity (OEO) and (2) discussions and a review of records at the offices of the City Comptroller and of the Human Resources Administration (HRA) of New York City.

STATUS OF ANTIPOVERTY FUNDS PROVIDED
BY OEO AND NEW YORK CITY

Federal participation in the cost of New York City's antipoverty program is in its sixth year. Federal funds were provided to New York City primarily under OEO grant 1064. From 1965, funds of about \$172 million were provided under this grant to HRA--the city's agency responsible for antipoverty programs. Also the city provided funds totaling about \$138 million for its antipoverty program.

The amount of the city's contribution constitutes a far greater percentage of the program costs than the minimum required to be contributed from non-Federal sources by the Economic Opportunity Act. The act limited the Federal share in program costs to 90 percent prior to July 1, 1967, and to 80 percent thereafter. The act also provided that the Director of OEO might approve assistance in excess of these percentages if he determined that such action was required. Since 1965, the city's share of the program costs has ranged from 34 to 47 percent; the following table shows the Federal and city funds provided during each program year.

<u>Program year</u>	<u>Period</u>	<u>Federal funds provided</u>	<u>City funds provided</u>
A	6-5-65 to 6-30-66	\$ 19,995,172	\$ 17,500,000
B	7-1-66 to 9-30-67	51,552,453	45,000,000
C	10-1-67 to 9-30-68	29,465,825	19,700,000
D	10-1-68 to 9-30-69	33,378,320	19,980,000
E	10-1-69 to 9-30-70	25,554,329	16,170,000
F	10-1-70 to 9-30-71	<u>11,820,123^a</u>	<u>19,900,000</u>
		<u>\$171,766,222</u>	<u>\$138,250,000</u>

^aAs of June 25, 1971, Federal funds had been authorized through April 30, 1971.

Since the start of the program, HRA has had problems in developing adequate procedures to account for its advances of funds to the several hundred delegate agencies that have responsibilities for carrying out activities under the anti-poverty program. OEO has not accepted HRA's final accounting of funds provided to its delegate agencies for any of

the program years because of the failure of the delegate agencies to provide documentation in support of all advances.

On May 11, 1971, OEO advised the city that, on the basis of OEO records, it was disallowing HRA expenditures of \$6,612,842 for program years B and C. On December 30, 1970, OEO disallowed expenditures of \$303,522 for program year A. The disallowances of \$6,612,842 included:

Unexplained expenditures	\$ 391,784
Advances to delegate agencies not adequately accounted for	<u>6,221,058</u>
Total	<u>\$6,612,842</u>

The disallowance represented OEO's estimate of the Federal share of the funds not accounted for during program years B and C. The amount of the funds reported in the December 1970 newspaper article as unaccounted for--\$7.8 million--represented the City Comptroller's estimate of the combined Federal and city funds which could not be accounted for during program years A, B, and C.

The City Comptroller in April 1971 completed an audit of HRA expenditures for program year D and reported that an opinion on HRA's financial statements for the program year was being withheld because of HRA's inability to locate a number of bank statements and canceled checks and because of the continuing balance of unaccounted-for advances to the delegate agencies for program years A, B, and C. At the time of our review--January to May 1971--OEO was in the process of reviewing the City Comptroller's report but had not reached a decision regarding any further action that might be taken. The City Comptroller, as of July 19, 1971, was in the process of making the audit of program year E.

FUNDS UNACCOUNTED FOR
IN PROGRAM YEARS 1965 THROUGH 1968

The City Comptroller, on December 11, 1970, advised HRA by letter that about \$7.8 million of antipoverty funds provided during the period July 1, 1965, to September 30, 1968, including Federal and city funds, could not be accounted for. This letter became the subject of the article in the December 14, 1970, issue of the New York Daily News.

At the outset of the antipoverty program in New York, the City Comptroller advanced the delegate agencies funds representing a small part of their budget requirements so that they could begin operations. As the delegate agencies incurred expenditures, they submitted vouchers through HRA to the City Comptroller. The procedures, at that time, provided that the City Comptroller record the amounts of the vouchers as program expenditures and as reductions of the advances and that he advance additional funds to the agencies as required. The City Comptroller, however, was unable to process the vouchers promptly, and, as a result, funds were not advanced to the agencies when needed.

To overcome this delay, the City Comptroller established a "revolving fund" so that advances could be made independently of the vouchering process. He required, however, that, for accountability purposes, the advances be justified by the submission of expenditure vouchers at a later date.

Vouchers submitted by a large number of delegate agencies during the earlier program years did not account for all the funds that had been advanced. The City Comptroller's records, as of August 3, 1970, showed that he had received and processed vouchers submitted by the delegate agencies accounting for only \$27.5 million of the \$35.3 million that had been advanced during the period July 1, 1965, to September 30, 1968. Of the advances of \$7.8 million that had not been offset by vouchers, \$5.7 million were Federal funds and \$2.1 million were city funds.

At a series of meetings attended by officials of the City Comptroller's office, the City's Bureau of the Budget, and HRA, it was concluded that the \$7.8 million could be reduced by expenditure vouchers totaling about \$2.1 million, which had been submitted by the delegate agencies but which had not been processed by HRA or the City Comptroller. Regarding the remaining funds of about \$5.7 million, it was decided to employ a certified public accounting firm to audit those delegate agencies that had not accounted for funds of \$1,000 or more and, to the extent that the audit of an agency did not result in obtaining documentation in support of the expenditure of the unaccounted-for funds, to obtain a certification from a responsible agency official, attesting that the funds were expended for program purposes. HRA

officials acknowledged that a certification, in the final analysis, would be the means used in most cases since the probability of finding satisfactory supporting documentation at that date was remote.

The audits to be conducted by a certified public accounting firm were estimated to cost \$35,000 and were scheduled to begin on April 1, 1971. The contract for these services was not awarded until July 1, 1971.

CAUSES CONTRIBUTING TO PROBLEMS OF ACCOUNTABILITY

The following conditions contributed to the fiscal shortcomings that were prevalent during the period July 1, 1965, to September 30, 1968.

1. The inability of HRA and its delegate agencies, primarily because they lacked competent fiscal employees, to adhere to OEO policies, procedures, and standards for financial management of funds advanced for the antipoverty programs.
2. A lenient attitude by OEO during this period regarding fiscal controls at HRA.

OEO promulgated a number of policies, procedures, and standards relating to the management of antipoverty program funds. Since June 1965 all grantees and delegate agencies are required to have adequate accounting systems and to arrange for accounting system surveys and periodic audits to help ensure that grant funds are being controlled and expended in accordance with grant conditions and OEO policies, procedures, and standards. Grantees and delegate agencies are required also to have annual audits made by independent certified or licensed public accountants, by municipal auditors, or by OEO auditors.

The audits of HRA through September 30, 1968, were not completed until February 1970. The audit of program year A was done by OEO. The audits for program years B and C were done by a certified public accounting firm, but they were not acceptable to OEO, because they included a disclaimer of opinion on the financial statements and because they did not cover all delegate agencies. The disclaimer

of opinion was caused by the lack of accountability for the funds expended.

OEO procedures require that each OEO grantee submit an Unexpended Federal Fund Report to OEO, which shows the balance of unexpended Federal funds at the end of a program year and that the information on the report be verified as part of the required annual audit of the grantee. The procedures also provide that OEO consider the program year as closed when it is satisfied that the information in the report has been verified and when all questions that may have been raised during the audit have been resolved.

During program years A, B, and C, there was a general weakness in the accounting procedures and internal controls of HRA and of the delegate agencies. HRA attempted during this period to implement an effective fiscal system. Its attempts, however, were unsuccessful due, in part, to a lack of competent fiscal employees; to a number of vacancies in key administrative and supervisory staff positions, such as finance and budget officers, financial analysts, and field auditors; and to non-attendance by fiscal staff at training sessions relating to fiscal procedures.

Under HRA's fiscal system in effect during the early program years, each delegate agency was required to prepare and submit vouchers having detailed supporting documentation for all expenditures of program funds. HRA and the City Comptroller's office reviewed the vouchers and rejected any which had been prepared improperly or which seemed to reflect unauthorized or inappropriate expenditures. Those found to be acceptable were recorded as reductions of the funds that had been advanced. This procedure resulted in a constant flow of questionable vouchers among the City Comptroller, HRA and the delegate agencies and thereby caused accountability for the vouchers to be continually changing.

As early as 1967 OEO correspondence with the city emphasized the seriousness of the fiscal problems that existed, the most significant being the lack of audits of delegate agencies and accounting differences between records maintained by HRA and those maintained by the City Comptroller. Although numerous meetings were held and correspondence was exchanged frequently, the basic problems continued to persist.

In January 1969 the OEO New York regional director stated that OEO continued to fund the program because of the commitment to continue services to the poor through the antipoverty program and in the belief that HRA had the capacity to be a responsible custodian of Federal funds. In January 1971 the regional director acknowledged that there had been a lenient attitude on the part of OEO toward the fiscal shortcomings of HRA and that this condition no longer could be allowed to continue.

PROPOSED CORRECTIVE ACTION

As mentioned earlier, OEO, on May 11, 1971, advised HRA that it was disallowing expenditures of \$6,612,842 reported in program years B and C. In its letter OEO outlined the following general procedures for the satisfaction of disallowances by grantees.

1. Unless OEO grants an extension, all final disallowances must be satisfied within 90 days.
2. Unless OEO allows an alternative means of satisfaction, the final disallowances shall be satisfied through cash payments.
3. In some instances, disallowances may be satisfied through increases in the required non-Federal share in program costs as provided for in subsequent grants or contracts.

To improve existing accounting procedures, a task force was formed early in 1971, consisting of employees from HRA, the City's Bureau of the Budget, and the City's Comptroller's Office. The task force revised a number of procedures pertaining to budgeting, financing, audit, and control of funds for the antipoverty programs. One of the major changes was in the format of the monthly financial report required to be submitted by each delegate agency. The format of the report was revised to give HRA more complete accounting information for controlling program funds advanced to the agencies, including cash position and expenditures data.

The task force also recommended that (1) delegate agencies retain all documentation supporting expenditures and submit only the monthly financial report to HRA, (2) HRA

review the report and use it as a basis for making monthly advances to the agencies, and (3) an independent accountant visit each agency quarterly to review its records and documentation in support of the reported expenditures and prepare a simplified voucher for submission to HRA. HRA and the City Comptroller have agreed to adopt this recommendation and to accept the voucher for purposes of accounting for advances to the agencies.

CONCLUSION

The foregoing revised and recommended changes in the fiscal procedures should provide the basis for an adequate accounting for program funds advanced to the delegate agencies. We have noted, however, that HRA has had a lack of adequately trained fiscal employees. Some improvements have taken place in this area. The new fiscal procedures call for HRA to give more aid to the agencies through increased training and for an increased number of field visits.

Under the recommended changes in the fiscal procedures, assurance that delegate agencies properly account for program funds will be dependent, to a large degree, on the quarterly examinations of the agencies by independent accountants. In the past the lack of independent audits of the records of delegate agencies was a major problem. It is important, therefore, that OEO ensure that the changes are implemented fully.

APPENDIXES

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

December 14, 1970

COMMITTEES.
INTERSTATE AND FOREIGN COMMERCE
MERCHANT MARINE AND FISHERIES

ADMINISTRATIVE ASSISTANTS:
ANTHONY R. GAETA
HELEN R. SMITH

Hon. Elmer B. Staats
Comptroller General of the United States
General Accounting Office
Washington, D. C.

Dear Mr. Staats:

The enclosed clipping from the New York Daily News reveals that approximately \$8 million, \$6 million in Federal funds, cannot be accounted for by the New York City antipoverty agencies.

A preliminary audit by a special seven man unit established by the City Comptroller's office revealed the discrepancies in the books of nearly all of the 1,000 delegate agencies funded under the antipoverty program from July 1, 1965 to September 30, 1968. The haphazard bookkeeping methods of the City's Human Resources Administration is a total disgrace.

I, therefore, urge you to immediately investigate the causes of this latest misappropriation of taxpayer's money; to assist local auditors in attempting to justify at least parts of the \$8 million outlay, and to recommend enforceable guidelines to poverty agencies for the establishment of cent-by-cent auditing procedures.

Sincerely yours,


JOHN M. MURPHY
Member of Congress

JMM:hs

APPENDIX II

LIST OF DELEGATE AGENCIES

WITH LARGEST UNACCOUNTED-FOR ADVANCES

AS ADJUSTED BY HRA AS OF MARCH 31, 1971

Bedford Stuyvesant Youth in Action, Inc.	\$ 871,543
Brownsville Community Council	224,681
Mobilization for Youth Neighborhood Service, Inc.	167,341
New York City Housing Authority	240,589
Harlem Teens - Self Help	259,623
Haryou - Act, Inc. Neighborhood Boards	371,337
Haryou - Act, Inc. (President's Commission on Juvenile Delinquency)	104,228
Qualicap Community Corporation of Queens	154,003
South Brooklyn Community Corporation	89,947
Special Education Services	<u>108,298</u>
	<u>\$2,591,590</u>