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

B-130515

AUG 22 1972

C.R. Dear Mr. de la Garza:

Enclosed is a copy of the report issued by the Office of Economic Opportunity (OEO) Audit Division covering its recent audit of the financial management and administrative function of Cameron and Willacy Counties Community Projects, Inc. (Agency), Brownsville, Tex. As you requested, we monitored the OEO audit which was completed in February 1972 and covered operations for the period April 1 to December 31, 1971. This report completes our response to your request of December 2, 1971, and to later agreements reached with you.

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The Agency was granted OEO funds amounting to \$547,776 for the period April 1, 1971, to March 31, 1972. During this period the Agency received Department of Health, Education, and Welfare Head Start funds totaling \$531,285 and was the sponsor for Department of Labor contracts totaling \$1,766,410.

We directed our monitoring efforts toward determining (1) whether OEO's audit had provided for adequate coverage of the Agency's financial and program activities and (2) whether all pertinent matters disclosed by the review had been properly reported. We tested the expenditures reviewed by OEO auditors and reviewed their conclusions regarding the Agency's accounting system and internal controls. In addition, we reviewed OEO's final report to insure that all deficiencies noted had been reported.

OEO made the audit principally to evaluate the Agency's accounting system, internal controls, and compliance with OEO grant conditions. The audit, which covered only OEO-funded operations, included a review of basic grant documents, the organizational structure, written procedures, financial and audit reports, and other pertinent documents available at the Agency's headquarters.

The OEO auditors examined about \$127,000, or 30 percent of the total expenditures incurred (\$415,453) under OEO grants from April 1 through December 31, 1971. These expenditures were examined to insure that they had been in accordance with the budget and OEO guidelines and were adequately documented.

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The OEO auditors concluded that the Agency's accounting system and internal controls were adequate, except that:

1. Funds had been advanced to local organizations without determinations of their ability to administer the funds and without contracts or written agreements to retain control over these funds.
2. The Agency had not complied with OEO instructions in hiring and promoting personnel.
3. The inventory of nonexpendable equipment submitted to OEO in January 1972 had been unsupported and property controls were inadequate.
4. Non-Federal contributions had been incorrectly computed and had not been adequately supported.
5. Financial management controls needed to be strengthened for purchasing, contracting, travel reimbursement, leasing, and coding and distributing expenditures.

The auditors questioned about \$45,000 of the approximately \$127,000 in expenditures examined. The expenditures questioned included (1) excessive salary payments, (2) unauthorized or unsupported travel payments, (3) payments made for purposes outside the scope of the program, (4) funds which were not supported and which were released to local organizations, (5) expenditures applicable to a prior year and paid from current OEO funds, and (6) excessive cost incurred for leased equipment.

The OEO audit report stated that the Agency had not implemented all the recommendations made in a prior audit report dated September 1970, although the Agency assured OEO in December 1970 that the recommendations had been implemented and that adequate controls had been installed. The current audit report recommends that OEO schedule a followup review of the Agency to determine if prior and current recommendations have actually been implemented.

In our opinion, the OEO audit provided adequate coverage of the Agency's financial and program activities and all deficiencies noted during the audit were included in the final report to the OEO Regional Director.

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Although the OEO audit report recognized that the adequacy of a system for accounting and internal controls depended not only on the design but on the implementation of the system and related controls through (1) continued efforts by financial management personnel to effectively record and document program expenditures and (2) surveillance of the system and procedures by management to insure compliance with the prescribed procedures, the report concluded that the accounting system and internal controls were adequate. However, on the basis of the number of exceptions taken by the auditor, we do not agree with their basic conclusion that the Agency's accounting system and internal controls were adequate. The large number of weaknesses disclosed by the OEO audit shows, in our opinion, that the system and controls were not fully implemented during the period audited.

In July 1972 we discussed our conclusions with OEO headquarters and regional auditors. Although they reiterated their opinion that the Agency's accounting system and internal controls were adequate, they concurred in our view that implementation of the system and related controls could be improved. They also informed us that the Agency had recently employed a new Director of Financial Operations and that as a result, they believed that the Agency's financial administration should improve significantly.

OEO and the Agency were not given an opportunity to formally examine and comment on our report, but OEO has provided the Agency with a copy of the OEO report for review.

We do not plan to make further distribution of this report unless copies are specifically requested and then only after we have obtained your approval or you have made public announcement concerning its contents.

Sincerely yours,



Comptroller General
of the United States

Enclosure

The Honorable Eligio de la Garza
House of Representatives