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COMPTROLLER GENERAL UNITED STATES

WASHINGTON, D.C. 20548



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R Dear Mr. Sandman:

Pursuant to your July 10, 1972, request and as agreed in a July 25, 1972, meeting with you, we surveyed the financial controls maintained by the Southwest Citizens Organization for Poverty Elimination, Inc. (SCOPE), Bridgeton, New Jersey, and examined certain charges of financial and other irregularities concerning SCOPE's operations. We also agreed that, after completing our survey of SCOPE's financial controls, we would review the effectiveness of the neighborhood centers operated by SCOPE.

In September 1972, shortly after we began our review of the operations of SCOPE's neighborhood centers, both SCOPE's Executive Director and Comptroller resigned, the Board of Trustees selected a new president, and seven new board members were appointed. In a discussion with your office on September 20, 1972, it was agreed that, because of the change in the leadership of SCOPE, we should discontinue our review.

For program years ending in 1972, SCOPE received grants totaling about \$1.7 million from the Office of Economic Opportunity (OEO) and the Departments of Labor and Health, Education, and Welfare (HEW) to operate antipoverty programs, including manpower training, migrant education and day care, Head Start, and neighborhood centers.

On August 18, 1972, we presented to your office a summary of the findings of the OEO Inspections Division on charges of financial and other irregularities concerning SCOPE. A representative of the Inspections Division had orally presented these findings in a meeting in your office on July 25, 1972. We also obtained and presented additional information which either amplified or clarified the charges.

The presentation by the OEO Inspections Division covered 12 charges and two other matters. Eight of the 12 charges were found to be unsubstantiated, one charge could not be resolved, information pertaining to one charge was referred to the OEO legal counsel for review, and the certified public accountant (CPA) hired to do the annual audit of SCOPE was

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requested to do additional work pertaining to two charges. The information obtained on the two other matters was referred to the OEO General Counsel for consideration.

On August 18, 1972, we also provided your office with a summary of information obtained in our survey of financial controls at SCOPE. This summary is included as appendix I. The information in the summary was obtained by discussions with SCOPE officials and SCOPE's CPA, 3 weeks of observation at SCOPE during July and August 1972, and examination of CPA reports and certain financial reports and documents prepared by SCOPE.

We could not verify all the information contained in the summary because of the lack of complete cooperation on the part of SCOPE officials and the many delays encountered because of their reluctance to furnish data. For these same reasons, we could not obtain all the desired information.

At the time we agreed to discontinue further audit work at SCOPE, our review of the effectiveness of SCOPE's neighborhood centers had not progressed sufficiently to enable us to comment on the extent that the objectives of the neighborhood centers were being met. We did, however, observe a number of financial and administrative conditions at SCOPE which we believed required further attention.

At a meeting on September 19, 1972, with representatives from the OEO New York regional office and the New Jersey Department of Community Affairs, we discussed our observations on

- recent changes in SCOPE's Board of Trustees and the number of unfilled key positions in SCOPE's executive staff, which raised questions about the lack of leadership at SCOPE;
- SCOPE's retention of migrant funds in a separate bank after the migrant program was transferred to the Farm Workers Corporation of New Jersey in December 1971 (in September 1972, SCOPE still had this account open with a balance of over \$60,000);

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- questionable expenditures for travel and consultant fees;
- inadequacies in SCOPE's community development program, including the lack of program evaluations by OEO;
- the questionable adequacy of the audit work done by a CPA firm for the OEO grant; and
- a loan of \$900 by SCOPE to one of its employees.

At this meeting OEO New York regional office officials informed us that an auditor from the OEO regional auditor's office would be sent to SCOPE to audit OEO grant fund expenditures. They also stated that the OEO legal counsel would review the legality of the composition of the new Board of Trustees and any actions taken by that Board.

The OEO regional auditor began his audit September 25, 1972; it was in process when we discontinued our work at SCOPE.

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As your office requested, the individuals and organizations mentioned in this report have not been given the opportunity to formally examine and comment on its contents. We plan no further distribution of this report unless copies are specifically requested and then only after you have agreed or publicly announced its contents.

We trust that the above information will assist you.

Sincerely yours,



Comptroller General
of the United States

The Honorable Charles W. Sandman, Jr.
House of Representatives

SURVEY OF FINANCIAL CONTROLSCASH CONTROLS

OEO guidelines provide for certain basic controls to account for grantee cash resources. These controls provide that cash receipts be recorded and deposited immediately; disbursements be made by using prenumbered checks and that all checks be accounted for; disbursements be properly supported and promptly recorded; bank reconciliations be prepared immediately when statements are received; and reconciliations be prepared by someone other than the persons receiving or depositing cash or preparing, authorizing, or signing checks.

The Comptroller of SCOPE stated that cash receipts--the primary source being Federal agencies--were recorded and deposited immediately and that all SCOPE employees were bonded.

Cash disbursements were made by using prenumbered checks and purchase orders; unused checks were kept in a fireproof, locked cabinet; check writing machines were locked and the keys were properly secured; and petty cash accounts were settled on a monthly basis.

Bank reconciliations were not being prepared in a timely manner. For example, on July 12, 1972, the latest bank reconciliations were requested for all SCOPE bank accounts. On August 7, 1972, the Comptroller furnished bank reconciliations as of May 30, 1972, for eight of 17 bank accounts. The Comptroller stated that some reconciliations had been made as of June 30, 1972, but she did not furnish them. Bank reconciliations were being made by the same individual responsible for preparing checks for payments and disbursements.

Disbursements were made on prenumbered checks which required two signatures. However, at one bank two different resolutions of SCOPE's Board of Trustees were used to indicate persons authorized to sign and countersign SCOPE checks. As of September 1, 1972, the OEO General Counsel was reviewing the legality of one of the resolutions, because there was no record of the resolution in the Board of Trustees' minutes.

The Comptroller stated that general ledgers and general journals had not been posted for several months. Other accounting records such as the cash disbursement registers were also not being posted on a current basis.

The Comptroller stated that plans were being made to put many of the accounting records on SCOPE's IBM accounting machine.

PAYROLL PROCEDURES

OEO and Labor instructions require that adequate time records, properly approved by supervisors, be prepared and maintained by grantees to substantiate payroll costs. The administrative manual of SCOPE provides for these basic controls. These controls require that timesheets be prepared for each employee showing the name, program, work station, hours worked, leave taken, etc. Timesheets are required to be approved by supervisors and the Comptroller. Leave records are required to be maintained and leave authorization slips are required for sick and annual leave.

A cursory review of the time and attendance reports and the payroll process indicated that the controls and documents required by OEO and the SCOPE administrative manual were being maintained.

The payroll system for enrollees of Labor's Neighborhood Youth Corps and Operation Mainstream programs also appeared to be adequate.

PERSONNEL POLICY

Personnel folders maintained for SCOPE employees were examined on a limited basis. These folders contained basic contracts showing salary, position, and work assignment. The folders also contained an employment application showing previous employment and salary. The "20 percent rule," whereby an employee cannot be hired at a rate exceeding by more than 20 percent his previous salary or wage without OEO approval, appeared to be observed. The folders also contained withholding data for such deductions as Federal income tax, life insurance, medical insurance, and the pension plan.

Selected personnel folders for SCOPE program enrollees were examined. They contained an employment application, an eligibility statement, and in some cases, an evaluation by the counselor or center director or recruiter.

PROPERTY AND EQUIPMENT

OEO, Labor, and HEW require that all grantees maintain adequate records for control of all property and equipment, including a record showing all types of equipment, its cost if purchased, value if donated, date of acquisition, and location. Independent checks and periodic physical inventories are required. When equipment is disposed of the inventory records must be adjusted.

The Executive Director stated that a complete inventory of all accountable property acquired by SCOPE under the various Federal programs was not available. However, various reports and documents indicated SCOPE was attempting to prepare a complete inventory of equipment.

The individual responsible for property control at SCOPE stated that a new central control system for all property and equipment was being planned. He said this system will include

- complete physical inventories including placing an identification tag on each piece of equipment,
- listing all equipment by location, and
- keeping all inventory records and controls on the IBM machine.

TRAVEL PROCEDURES

OEO and Labor instructions require that grantee employees' travel be authorized in advance and that adequate information be maintained to support travel expenses claimed. Required controls over travel have been included in SCOPE's administrative manual.

A number of travel vouchers submitted by SCOPE employees were examined. The following was observed:

1. Some of the vouchers for local travel on file at SCOPE showed odometer mileage and others did not.
2. Vouchers for both local and out-of-area travel were not always submitted within 5 days after completion of the travel as required by SCOPE's administrative manual.
3. Unused portions of travel advances were not always returned with the voucher as required by SCOPE's administrative manual. For example, the Executive Director did not clear travel advances at the completion of trips. He allowed his expenditures over or under travel advances to accumulate from February 1971 through April 1972.

The Comptroller stated that a separate file for outstanding travel advances was not kept because there were so few of them. She stated that, except for herself and the Executive Director, no one had received out-of-area travel advances since February 1972.

PROCUREMENT POLICIES

OEO and Labor guidelines provide that adequate controls should be maintained over purchases and that receipts of goods and services be adequately documented.

SCOPE's purchasing agent stated that, after the project director received a purchase request, he forwarded it to the purchasing agent who initiated a purchase order. The purchase order was then sent to the Comptroller who determined if it represented an allowable expenditure. The Comptroller also certified whether funds for the purchase were available. The purchase order was then sent to the Executive Director for final approval. Purchase orders were prenumbered for control.

A limited review of purchase orders indicated SCOPE was following the procedures described by the purchasing agent. A limited test of payments to vendors also indicated that all necessary documentation, including vendors' invoices and receipt documents, was being obtained.

NON-FEDERAL, IN-KIND CONTRIBUTIONS

OEO instructions require that in-kind contributions be properly accounted for with documentation to fully and clearly support the contribution and its valuation. Reports or vouchers should contain the donor's name and the basis for the valuation and should support each contribution. Contributed personal services should be supported by timecards or records signed by both the volunteer and his supervisor. In-kind contributions of space or equipment should be recorded in the financial records monthly.

The Comptroller stated that SCOPE's in-kind contributions consisted primarily of volunteer personal services and donated office space.

In-kind contributions consisting of volunteer time were recorded on volunteer time report sheets by the SCOPE supervisors at the various field sites. These reports listed the name, address, telephone number, occupation, and amount of time given by the volunteer. These reports were verified and signed by the field supervisors. The signature of the volunteer was not always obtained. The reports were submitted to SCOPE's central office on a monthly basis. A dollar value was computed for each type of service on the basis of the standard OEO rate schedule.

SCOPE plans to use a new type of form to record volunteer services. The form will be prepared separately for each volunteer and must be signed by the volunteer as well as the supervisor.

The Comptroller stated that in-kind contributions of office space were valued at a rate established at the time the space was initially donated to SCOPE. She said rates were based on space rentals in the area and that monthly entries were made to record these values.