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RELEASED

# Improvements Needed In The Financial Administration Of Norwalk Economic Opportunity Now, Inc. Norwalk, Connecticut

B-130515

Office of Economic Opportunity  
Department of Labor

*BY THE COMPTROLLER GENERAL  
OF THE UNITED STATES*

**088921**

APRIL 28, 1970



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

B-130515

Dear Mr. Weicker:

This is a report on our review of the financial administration by the Norwalk Economic Opportunity Now, Inc., the Community Action Agency which administers antipoverty programs in Norwalk, Connecticut, under the Economic Opportunity Act of 1964, as amended. The review was made pursuant to the agreement reached in a discussion with you on May 21, 1969.

The Office of Economic Opportunity, the Department of Labor, the Community Action Agency, and other parties mentioned in this report have not been given an opportunity to formally examine and comment on the report.

In our meeting with you on January 21, 1970, it was agreed that we would send copies of this report to the Director of the Office of Economic Opportunity and to the Secretary of Labor to advise them of the matters which we believe need improvement and that you would provide a copy to the Community Action Agency. We are proceeding in accordance with that arrangement.

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

Sincerely yours,

A handwritten signature in cursive script, appearing to read "James B. Aron".

Comptroller General  
of the United States

The Honorable Lowell P. Weicker, Jr.  
House of Representatives

## C o n t e n t s

Page

DIGEST 1

### CHAPTER

1 INTRODUCTION 4

2 IMPROVEMENTS NEEDED IN THE ADMINISTRATION  
OF FEDERAL FUNDS 7

Accounting records 7

Accounting personnel 9

Audit requirements 10

Control of funds 11

Payroll and related costs 14

Personnel matters 15

Travel 18

Procurement practices 18

Accountable property 19

Bonding of officials 22

Financial reports 22

NYC enrollee records 23

NYC enrollee eligibility 23

Non-Federal contributions 25

Conclusion and recommendation to the  
Secretary of Labor and the Director,  
OEO 26

### APPENDIX

I Summary of OEO Grants received and funds  
expended 31

II Summary of DOL funds received and expended 32

### ABBREVIATIONS

DOL Department of Labor  
GAO General Accounting Office  
NEON Norwalk Economic Opportunity Now, Inc.  
NYC Neighborhood Youth Corps  
OEO Office of Economic Opportunity

## D I G E S T

### WHY THE REVIEW WAS MADE

Representative Lowell P. Weicker, Jr., asked the General Accounting Office (GAO) to review the financial administration of antipoverty programs carried out by Norwalk Economic Opportunity Now, Inc., the Community Action Agency in Norwalk, Connecticut.

Federal funding of the Norwalk antipoverty programs during the period July 1965 through December 1969 included about \$689,900 provided by the Office of Economic Opportunity (OEO) largely for program administration, Head Start, and summer recreation programs and about \$121,600 provided by the Department of Labor to carry out Neighborhood Youth Corps programs.

Officials of OEO, Labor, and the agency have not been given an opportunity to formally examine and comment on the contents of this report.

### FINDINGS AND CONCLUSIONS

Many weaknesses existed in the control and administration of Federal funds used for the programs administered by the Norwalk agency. GAO was unable to determine conclusively the propriety of many of the agency's expenditures because of these weaknesses. (See p. 7.)

GAO believes that OEO and Labor should have taken more forceful action during the long period the weaknesses existed to ensure their correction. GAO found that:

- Accounting records were not adequate, accurate, or current. Contributing factors included the failure of the Norwalk agency to have the adequacy of its accounting system appraised, although required to do so by OEO, and the lack of a full-time, qualified bookkeeper. (The agency hired a new bookkeeper following completion of the GAO fieldwork.) (See pp. 7 to 11.)
- OEO funds were commingled with funds from other sources, contrary to OEO requirements, and were loaned or advanced for use in other than OEO programs. Unspent funds from completed programs were not

returned to OEO and Labor promptly but were permitted to remain idle for periods of 9 to 37 months. After GAO brought this matter to the attention of local program officials, about \$25,000 was returned to the Government. (See p. 11.)

- Payrolls were not adequately documented. Employee time and attendance records in some cases were not prepared; in other cases, although reportedly prepared, could not be located. Employees normally worked a 35-hour week, although personnel policies required 40 hours. A number of time records of Neighborhood Youth Corps enrollees had been adjusted, without explanation, to show a higher number of hours worked than were approved initially by supervisors. (See p. 14.)
- Personnel files were incomplete for many employees or were not maintained. Leave records were not maintained adequately. (See p. 15.)
- Travel costs were not documented adequately; in general, evidence was not on file showing the purpose of the travel or that it was authorized in advance. (See p. 18.)
- Weaknesses in procurement practices included the failure to (1) prepare purchase orders prior to purchases, (2) document that items were received, (3) consider using General Services Administration supply sources, and (4) document the reasonableness of certain rental rates for space used in the Head Start program. (See p. 18.)
- Records for accountable property such as office furniture were not maintained nor were physical inventories taken. (See p. 19.)
- Officials who handled program funds were not bonded prior to November 1969. (See p. 22.)
- Financial reports for OEO and Labor programs either were not prepared or were not submitted on time. (See p. 22.)
- Available records showed that family income exceeded prescribed maximum income levels for a number of Neighborhood Youth Corps enrollees. The Norwalk agency's executive director disagreed with those records. (See p. 23.)
- Although substantial contributions apparently were provided from other than Federal sources, the value of the contributions often was not recorded; those contributions which were recorded could not be substantiated. (See p. 25.)

#### RECOMMENDATIONS OR SUGGESTIONS

The executive director of the Norwalk agency initiated, or promised, action to correct matters brought to his attention.

GAO recommends that the Secretary of Labor and the Director, OEO, keep a close watch on steps taken to correct these matters and take any further action necessary to ensure that the agency corrects the weaknesses in financial and program administration discussed in this report. (See p. 26.)

## CHAPTER 1

### INTRODUCTION

The General Accounting Office (GAO) has reviewed the financial administration by the Norwalk Economic Opportunity Now, Inc. (NEON)--the Community Action Agency in Norwalk, Connecticut--of antipoverty programs funded by the Office of Economic Opportunity (OEO) and the Department of Labor (DOL) under the Economic Opportunity Act of 1964, as amended (42 U.S.C. 2701). Our work was performed pursuant to an agreement made on May 21, 1969, with Congressman Lowell P. Weicker, Jr., that we would examine into the Community Action Programs in Norwalk, Stamford, and Bridgeport, Connecticut. The results of our review at Bridgeport were contained in a report dated March 23, 1970 (B-130515). Our examination at Stamford will be the subject of a future report.

Our review, conducted during the period September through December 1969, was directed toward evaluating NEON's procedures and controls relating to funds and property and examining into other specific financial management practices. The review, covering the period July 1965 through December 1969, was conducted primarily at the NEON office and at the office of the comptroller of the city of Norwalk, which maintained the accounting records for a time. We also interviewed regional officials of OEO, DOL, and NEON and city officials who had information pertaining to the matters under review. The scope of the examination did not encompass an evaluation of whether the programs were effective in achieving their statutory objectives.

During the period July 1965 through December 1969, Federal funds of approximately \$811,500 were provided for use in the Norwalk antipoverty programs--about \$689,900 by OEO and about \$121,600 by DOL. As of June 1969, about \$509,900 had been expended under the OEO programs (see app. I), and as of October 1969, about \$113,100 had been expended under the DOL programs (see app. II). NEON's executive director informed us in April 1970 that NEON had received a grant of \$187,500 to carry out the OEO-funded programs in calendar year 1970 and that DOL funding for the 1970 program had not been received.

## PROGRAM PURPOSES

Under title II of the Economic Opportunity Act, OEO provides financial assistance to Community Action Agencies to operate a variety of antipoverty programs designed to help urban and rural communities mobilize their resources to combat poverty. Community Action Agencies may be either public agencies or private nonprofit agencies; however, the Economic Opportunity Act requires participation of the groups to be served in the development, conduct, and administration of the antipoverty programs.

The Neighborhood Youth Corps (NYC) program, established under title IB of the Economic Opportunity Act, is administered by the Secretary of Labor under delegation by the Director of OEO. The purpose of the NYC summer work training program is to provide meaningful work experience, training, and necessary supportive services to eligible youth from low-income families so that they may be provided with earnings to permit them to continue or resume attendance in school or to assist them to develop their maximum occupational potential.

## NORWALK ECONOMIC OPPORTUNITY NOW, INC.

In March 1965, the agency was incorporated under the name of Norwalk Committee on Training and Employment, Inc., as a nonprofit organization. Its purpose was to conduct research and planning to improve the living, working, and housing conditions of the people in the community with a view toward lessening neighborhood tensions and combating community deterioration. The present corporate name was adopted by amendment to the certificate of incorporation on February 28, 1966.

In September 1969, NEON's board of directors consisted of 33 members--17 Negro and 16 Caucasian. Of those members, 10 represented the political sector, 15 the poor sector, and eight the private sector. At that time, NEON's staff consisted of an executive director, nine full-time employees, and one part-time employee.

NEON's February 1969 application for OEO funds stated that there were 1,467 families in the city of Norwalk with incomes of less than \$3,000 and that 720, or 49 percent, lived in one section of the city which was designated as the target area for the program.

## CHAPTER 2

### IMPROVEMENTS NEEDED IN THE

### ADMINISTRATION OF FEDERAL FUNDS

Throughout the period covered by our review--July 1965 through December 1969--weaknesses existed in NEON's control over, and administration of, Federal funds, which precluded our making conclusive determinations of the propriety of many of the expenditures.

We discussed the weaknesses with NEON's executive director during and at the completion of our review, who informed us that he was correcting some of the deficiencies and that he would correct the others as soon as possible.

Our examination of prior audit reports by NEON's public accountants and by OEO, our review of NEON's records, and our discussions with OEO and NEON personnel revealed that OEO was aware that, during the period the accounting records were maintained by the city comptroller, deficiencies existed in accounting for and maintaining control over Federal funds. Prior to and during the period of our fieldwork, OEO was corresponding with NEON concerning the correction of noted weaknesses.

Although NEON was responsible for administering the federally funded programs in accordance with established standards, both OEO and DOL had a responsibility to monitor and assist the grantee. It is apparent from the long period during which weaknesses existed that more forceful action should have been taken to provide assurance that program funds would be used only for authorized purposes. ✓

Following are detailed comments on those areas of weakness found during our review.

#### ACCOUNTING RECORDS

Pursuant to an OEO requirement that a public accountant, or the appropriate official of a State or other political subdivision who assumes responsibility for grant

funds, certify as to the adequacy of a grantee's accounting system, the comptroller of the city of Norwalk notified OEO in May 1966 that he would assume the responsibility for establishing and maintaining the financial accounts for NEON in accordance with OEO standards. During a review of NEON's records in the latter part of calendar year 1967, OEO auditors found that the city comptroller had not established accounting records that met the minimum OEO requirements. Thereafter, the city comptroller established the required accounting records.

✓ Although the required records were established, we found that some expenditures were misclassified, supporting documentation was not on file for many expenditures, the sources of NEON's funds were not properly identified, and ✓ OEO grant funds were commingled with other Federal, State, and local funds. This commingling of funds prevented NEON from having accurate and current knowledge of the financial status of the programs it was operating.

✓ In July 1969, NEON assumed the accounting functions for all antipoverty programs except the Head Start program. When we began our review in September 1969, NEON's accounting records consisted of a cash receipts and disbursements book and a payroll record. Other required records--general journals and account ledgers--had not been established. The records did not readily permit the identification of expenditures by program and cost category (personnel, travel, supplies, etc.), although such records were required by OEO. NEON began to correct these deficiencies after we began our review. However, when we completed our field review in December 1969, the accounting records were not complete or current for expenditures incurred after June 1969.

✓ The records maintained by the city comptroller for the 1968 NYC program were generally adequate, but the records maintained by NEON for the 1969 NYC program were not. For example, for three of the 10 payrolls, the amounts of net pay in the payroll records did not agree with the total of the checks issued and disbursements were not entered in the account ledger. At our request, the payroll records were corrected--by being brought into agreement with the amounts

paid--and the transactions through September 1969 were entered in the ledger.

#### ACCOUNTING PERSONNEL

OEO and DOL require that sufficient and qualified accounting personnel be assigned by the grantee to ensure that financial operations and administration of the accounting system and related controls meet acceptable standards. NEON's bookkeeper worked part time while attending a community college to study accounting. The bookkeeper, who devoted most of his time to the preparation of payroll and other checks, did not, in our opinion, understand the accounting system. We had to obtain the information needed to conduct our review from a public accountant who had been retained by NEON to supervise the work of the bookkeeper and assist in maintaining NEON's records. Our observations and our discussions with the public accountant indicated that most of the public accountant's work for NEON was performed either at night or on weekends and that his supervision of the bookkeeper was limited. ✓

We believe that the lack of a full-time, qualified bookkeeper significantly contributed to the poor condition of NEON's records. After we had completed our fieldwork, NEON's executive director informed us that NEON had hired a new bookkeeper who was working under the supervision of a retired certified public accountant who had volunteered his services.

*Accounting & Management*  
AUDIT REQUIREMENTS

Section 243 of the Economic Opportunity Act as amended in December 1967 requires that a grantee must (1) prior to the release of funds under the initial grant, submit a statement to OEO by an independent public accountant, or the responsible financial officer of a public agency, certifying that the grantee has established an accounting system with internal controls adequate to safeguard the assets of the grantee, check the accuracy and reliability of the accounting data, promote operating efficiency, and encourage adherence to prescribed management policies, (2) have a preliminary accounting survey initiated within 3 months after the effective date of the first grant, to review and evaluate the adequacy of the system, and (3) arrange for periodic audits, at least once annually, after the initiation of a grant program.

OEO instructions to grantees, dated June 1965, required that, when a grantee's accounts were to be maintained by a public agency, OEO was to be provided with a statement from the chief financial officer of the public agency that the accounts would be established and maintained in accordance with standards set forth by OEO. The city comptroller provided OEO with such a statement in May 1966.

✓ However, an independent public accountant's certification of the adequacy of NEON's accounting system, which was required by the Economic Opportunity Act, was not provided to OEO when NEON assumed responsibility for the accounting function starting in July 1969. In addition, the required preliminary survey of NEON's accounting system was not made.

NEON's grant fund transactions from inception through December 31, 1968, were audited by a certified public accountant and/or by OEO. OEO's audit, which covered the period from inception to December 1967, revealed weaknesses in the accounting system maintained by the city comptroller. (See p. 8.) NEON's certified public accountant's reports on its audits, which covered the period February 1966 to December 1968, did not contain an opinion as to the adequacy of the accounting system. On June 20, 1969, OEO informed NEON of the need for such an opinion by the accountant and requested compliance within 30 days. OEO later granted NEON

until November 19, 1969, to provide the opinion but informed NEON that, if the opinion was not provided, serious consideration would be given to the suspension of NEON's grants.

On December 12, 1969, NEON's certified public accountant provided OEO with the opinion that, for the period September 1, 1967, through December 31, 1968, the accounting system and internal controls for that part of NEON's operations which were maintained by the city comptroller were adequate except that non-Federal-share contributions were not recorded and that, in some instances, expenditures were misclassified. The firm stated that the accounting system maintained by NEON for the 1968 summer recreation program was adequate but that the internal controls were not adequate to safeguard the assets. Also, the filing system was incomplete, records could not be located, invoices were not stamped paid, and there was no apparent system to control purchase orders. These deficiencies were attributed to the lack of experience of the NEON personnel.

A survey of NEON's accounting system, in our opinion, could have resulted in a more timely identification and correction of the deficiencies that existed at the time we completed our field review in December 1969.

#### CONTROL OF FUNDS

OEO requires that grant funds be used only for the purpose for which the grant was made. OEO requires that funds unexpended at the end of the program period be reported and returned to OEO within 90 days after the end of the period. DOL initiated this requirement in April 1967 but previously had allowed 1 year for the return of unexpended funds.

We found, however, that on several occasions NEON advanced OEO funds to pay the obligations of other than OEO programs and that unexpended funds of completed programs usually were not returned timely to OEO and DOL. On July 3, 1968, \$10,000 of OEO funds was used to finance a State-supported program and on July 3, 1969, \$4,500 of OEO funds was used to finance the NYC program. Both amounts were repaid, the first after about 9 months and the second

after 2 months. During the summer months of 1969, NEON also used OEO funds of \$988 to pay the salaries of employees of a State-supported program. This amount had not been returned to the OEO account when we completed our field review in December 1969.

Also, during our review, NEON and the city comptroller had under their control about \$30,000 of unexpended grant funds which should have been returned to OEO and DOL. Most of these funds had been idle in banks from 9 to 37 months, as shown below.

<u>Program</u>	<u>Unexpended fund balance</u>	<u>Date remittance was due</u>	<u>Time of remit- tance</u>	<u>Months of delay</u>
CAP Grant 1026A (note a)	\$18,768	Mar. 31, 1968	Jan. 7, 1970 <sup>b</sup>	21
CAP Grant 1026B (note a)	6,732	Mar. 31, 1969	Jan. 7, 1970 <sup>c</sup>	9
1965 NYC Program	1,059	Sept. 15, 1966	Nov. 18, 1969	37
1966 " "	2,376	Sept. 2, 1967	Dec. 11, 1969	27
1967 " "	956	Dec. 2, 1967	None	25
1968 " "	389	Nov. 31, 1968	None	13

<sup>a</sup>Community Action Program.

<sup>b</sup>\$18,032 was remitted to OEO on January 7, 1970.

<sup>c</sup>\$3,662 was remitted to OEO on January 7, 1970, but was incorrectly designated as being applicable to another grant.

We discussed these matters with the NEON executive director who informed us that (1) all OEO funds advanced to other programs would be repaid and (2) unexpended OEO and DOL funds from prior program periods would be returned as soon as NEON could hire qualified personnel to prepare final reports or when the city comptroller's office could assist

in preparing the required reports. As shown in the above table, the unexpended DOL funds for the years 1965 and 1966 were returned in November and December 1969 and OEO funds in the amount of \$21,694 were returned in January 1970.

From our review of NEON and OEO records and from discussions with a DOL official, it appears that OEO and DOL were aware that unexpended program funds had not been returned and that both OEO and DOL had requested NEON to remit the unexpended funds. We believe that both agencies should have taken more affirmative action to ensure timely return of Federal funds which were idle in NEON's bank accounts. ✓

## PAYROLL AND RELATED COSTS

Payroll costs amounted to about \$420,000 for OEO programs from their inception through June 1969 and about \$112,000 for the DOL program from its inception through October 1969. These costs represented about 85 percent of NEON expenditures of Federal funds.

OEO and DOL required that adequate time records, properly approved by supervisors, be prepared and maintained to substantiate payroll costs. These requirements were supplemented by provisions in NEON's personnel manual which required that time and attendance records be kept for all personnel, that the normal workweek be 40 hours, and that a record of all personnel actions be maintained.

Our review of payroll procedures and practices and selected payrolls for OEO programs and our tests of available payroll records for the NYC programs revealed that the above requirements were not being followed by NEON, its delegate agency (the Norwalk Board of Education) which administers the Head Start program, or the NYC project directors. With respect to the OEO programs:

1. NEON employees normally worked 35 hours instead of the required 40 hours per week. Time worked in excess of 35 hours was credited to compensatory time.
2. Time records of NEON and the Board of Education generally were not being approved by supervisory personnel. For example, of 86 time records examined for NEON staff, only 20 were initialed or signed by a supervisor.
3. Time and attendance records were not maintained for NEON's administrative staff and some employees of the Head Start program.
4. In several instances, time records were not correctly prepared or were incomplete.

NEON's payrolls for the 1968 summer NYC program could not be substantiated because no time records had been

maintained for the program staff and no enrollee time sheets, showing daily and weekly hours worked, could be located by the executive director.

Also, the staff's time and attendance reports for the 1969 summer NYC program and the enrollee time records for the first two of the 10 pay periods in this program could not be located. Our examination of enrollee records for the third pay period showed that time records pertaining to enrollees assigned to 11 of the 13 work stations generally had been approved by supervisors. However, for two of the 11 stations, duplicate nonapproved time sheets had been prepared which showed a larger number of enrollee hours worked than did the approved time sheets on file. The payroll was computed on the basis of the larger number of hours.

We also noted that, during this same pay period, hours on the approved reports had been changed for 13 of the 53 enrollees. The revised reports did not show the reasons for the changes or the signature of the person who made the changes. The official directly responsible was no longer associated with NEON and NEON's executive director was not able to explain the changes. Also, 30 of the 53 enrollees' time records examined, showed actual time in and out, whereas the remainder showed only total daily work hours claimed.

The executive director informed us that in the future the workweek would be reduced officially to 35 hours, subject to the board of directors' approval, and that the maintenance of properly prepared and approved time and attendance reports would be required for all employees. He also stated that NYC staff and enrollees would be required to become familiar with pertinent DOL financial requirements.

#### PERSONNEL MATTERS

NEON did not maintain adequate personnel or leave records. As a result, we were unable to fully verify that (1) NEON had adhered to OEO salary requirements which stipulate that grantees cannot pay employees earnings over \$5,000 a year more than 20 percent over their previous earnings, or

\$2,500, whichever is lower, and cannot increase an employee's pay more than 20 percent in a 12-month period and (2) leave transactions were appropriate.

Between September 1966 and July 1969, 44 persons worked at various times as staff employees; however, only 22 personnel records were available for examination. Of the 22, only six contained data on prior earnings. The files did not include data on pay increases, hirings, and dismissals. Also, there were no personnel files for two of the employees who were working for NEON at the time of our review.

NEON's records did not show the balances of employees' annual, sick, or compensatory leave. In January 1969, the executive director established a system under which the administrative assistant maintained a leave record for each employee. However, the administrative assistant resigned in March 1969 and the system was discontinued. On some occasions before January 1969, leave used was entered in the employees' personnel records. Our comparison of these entries with the leave taken as recorded on employees' time sheets showed that the records were not in agreement. As previously noted, all time worked in excess of 35 hours was recorded as compensatory time. In October 1969, we were informed by a staff member of NEON that 544 compensatory hours had been accumulated.

We discussed the deficiencies in the personnel records with the executive director who stated that:

1. Questionnaires had been issued to all employees to obtain information relative to previous employment.
2. Leave records for all employees would be prepared and maintained by the new administrative assistant.
3. Compensatory time balances would be forfeited and new instructions relating to the accrual and taking of such time had been issued.

NEON's personnel manual already included similar requirements; thus, the deficiencies arose not from a failure

of prescribing adequate procedures, but from a lack of their enforcement. We believe that the executive director should establish procedures to ensure that the corrective actions are implemented. .

## TRAVEL

Travel costs for the OEO-funded programs from their inception through June 1969 amounted to about \$23,000 and for the DOL-funded NYC program from inception through October 1969 amounted to \$359. OEO guidelines require that travel by employees of grantees and their delegate agencies be authorized and paid for in accordance with the Standardized Government Travel Regulations. DOL has required program operators to maintain adequate information to support travel expenses claimed.

Our review of documentation for travel costs of about \$13,000 charged to OEO programs showed that generally (1) evidence of prior authorization for travel or data on the purpose of the travel was not on file and (2) travelers' claims for payment did not show departure and arrival times in support of per diem allowed or odometer readings in support of allowances paid for use of personally owned autos. Also, \$180 was charged to travel for the 1968 NYC program on May 28, 1969--9 months after the program was completed. This charge was recorded as the cost of the use of a bus for enrollees, although the DOL-approved program budget did not provide for any enrollee travel. Of the six travel claims charged to the 1969 NYC program, two vouchers in support of two of the claims were not on file and could not be located and the remaining four had not been approved prior to payment and contained only the traveler's name, date of trip, destination, and number of miles traveled.

In commenting on our findings, the executive director stated that in the future he would require proper authorization for all travel and submission of travelers' claims which would comply with the Standardized Government Travel Regulations.

## PROCUREMENT PRACTICES

NEON was not complying with OEO guidelines which state that (1) the reasonableness of Head Start space rentals should be supported by a local realtor's certification and (2) purchases of goods and services should be initiated by purchase orders or requisitions, and prices available from

General Services Administration supply sources should be considered.

NEON recorded costs of about \$58,000 for purchase or rental of equipment, space rentals, and supplies and services. We examined supporting documentation for expenditures of about \$6,200 charged to the space and rentals account and about \$13,000 charged to the supplies and equipment accounts.

Of the amounts charged to space and rentals, \$1,200 was for fees for girl scouts to attend summer camp, which had been erroneously charged to the account, and \$3,300 was for rental of space for the 1968 Head Start program. Rental agreements for the space were on file; but, contrary to OEO guidelines, a certification of the reasonableness of the rental rates had not been obtained from a local realtor.

With respect to purchases of supplies and equipment, we found that General Services Administration supply sources had not been considered, many purchase orders had been prepared only after the related purchases were made, and for many items there was no documentation showing that they had been received.

The executive director informed us that in the future (1) all rented space would be appraised, (2) he would discuss with OEO the utilization of General Services Administration supply sources, and (3) he would institute procedures to strengthen the internal controls over purchases.

At the completion of our review, NEON did not have adequate written procurement instructions. We believe that the executive director should develop adequate written instructions, including specific actions contemplated, to avoid the type of deficiencies noted in our review and should establish the necessary procedures to obtain compliance with such instructions.

#### ACCOUNTABLE PROPERTY

OEO guidelines state that grantees and participating agencies are expected to maintain records of all nonexpendable property purchased, to take periodic physical

inventories to verify the location of property, and to inform OEO promptly of any property that is lost, destroyed, or stolen.

Most of the nonexpendable property purchased by NEON was for use by the Norwalk Board of Education in the Head Start program. OEO found in its 1967 audit that property records had not been maintained. As a result, the Board prepared a list of property purchased for the Head Start program for the calendar years 1966 and 1967. However, this list was not kept current.

The Board's Head Start program director told us that:

1. Property record cards had not been maintained for nonexpendable property.
2. Items purchased with OEO funds had not been marked in the manner required by OEO.
3. Periodic physical inventories of nonexpendable property had not been taken.

The Head Start program director also informed us that, at the end of calendar year 1969, a new inventory of property purchased with OEO funds would be taken and any items lost, destroyed, or stolen would be reported to NEON.

NEON did not have written instructions providing for property accountability. NEON's executive director informed us that NEON had not maintained property cards for nonexpendable property, that periodic inventories had not been taken, and that all nonexpendable property used in the main NEON office had either been supplied as in-kind contributions or had been purchased or rented for NEON by the city of Norwalk. An inventory of NEON's nonexpendable property had been prepared in September 1968, but this list also had not been kept current. For example, an electric typewriter, a calculator, and a bus which had been obtained from the General Services Administration as surplus property had not been included on the list. Tests of the items appearing on the list showed that, of the 65 items, 27 were not properly

marked or tagged with serial or other identification numbers and 11 were found in locations other than those designated.

NEON is required by OEO to ensure that proper controls over accountable property are being maintained. To attain improved controls, NEON should prepare written instructions to provide for property accountability by NEON and delegate agencies and should require periodic reviews to ensure that the instructions are being carried out.

## BONDING OF OFFICIALS

OEO requires that, except where funds are deposited in a public treasury and disbursed and audited by local and State public officials, a grantee make arrangements for appropriate bonding of officials to protect against possible dishonest acts of individuals who have disbursement authority.

During the period that the accounting functions were performed for NEON by the city comptroller, NEON, as well as the city, received funds directly from OEO. NEON deposited funds received in a bank account and transferred such funds to the city comptroller when the need arose. The transfers were made by checks signed by the treasurer of the board of directors and NEON's executive director. During this period, NEON had not obtained bonding coverage, although it apparently was required by the OEO guidelines. After NEON assumed the accounting and fund control functions from the city comptroller for the 1968 OEO summer recreation program and for all programs except the Head Start program starting in July 1969, the required bond still was not obtained.

During our review we brought this matter to the attention of the executive director. In November 1969, NEON obtained a 1-year \$25,000 fidelity bond to protect the Government from losses which might be caused by dishonest actions by the NEON staff. The executive director informed us that in the future he would continue to provide all required bonding.

## FINANCIAL REPORTS

Each grantee is required by OEO to submit a monthly summary financial report 15 days after the end of each month and a final report 90 days after the end of a program year. Since April 1967, DOL also has required the submission of monthly reports by the 10th of the month following the month reported on and final program reports within 90 days after the termination date of a program. If properly prepared and submitted, the required reports should assist NEON and Federal officials in determining whether Federal and non-Federal expenditures are consistent with program objectives and authorized funding.

At the completion of our field review in December 1969, monthly financial reports to OEO had not been filed by NEON since January 1968 and final reports had not been filed for program years which ended December 31, 1967, and 1968. The executive director informed us that this condition existed because he did not have personnel available who were capable of preparing the reports. The city comptroller informed us that he had not prepared the reports for which he was directly responsible because there was a lack of communication between his office and NEON and because certain information required in the reports had not been provided by NEON officials.

The final reports for the 1965 and 1966 NYC programs were also submitted late by the city comptroller--in November and December 1969. The executive director informed us in December 1969 that NEON had arranged for the city comptroller's office to prepare all required reports, both monthly and final, for the period during which the city comptroller performed the accounting function for NEON and that all delinquent reports for the period since NEON assumed the accounting responsibility would be completed soon after qualified accounting personnel were hired.

#### NYC ENROLLEE RECORDS

During our review of the 1969 NYC program, we found that NEON was not complying with a DOL requirement that it forward to DOL copies of enrollee records containing information needed to develop source data for the programs and to answer questions relating to the programs. These records which are prepared following an initial counseling session, show educational, vocational, family, and other specific information about interested and eligible prospective enrollees.

The executive director stated that he had been unaware of this requirement but that he would forward the 1969 records within a few weeks.

#### NYC ENROLLEE ELIGIBILITY

DOL eligibility requirements for the NYC program provide that enrollees' family incomes generally not exceed

certain income levels. The NYC records did not indicate how the enrollees were selected; however, our test of these records showed that a significant number of enrollees in the 1969 NYC program were ineligible for enrollment in the program. Our review of 45 enrollees' records randomly selected from the 127 enrollees' records available, showed that 17 enrollees, or 38 percent of those tested, were ineligible because the reported family income exceeded the established maximum income levels. The executive director disagreed with the data recorded in the records and informed us that through personal knowledge he was aware that much of the information reported by the enrollees was erroneous and that only a few enrollees were ineligible.

We made no further inquiries to resolve whether the recorded data in the enrollees' records was reliable. We believe, however, that program administrators should review the enrollees' records for completeness and accuracy and should assure themselves that only those eligible are enrolled.

The executive director stated that, for future programs, more attention would be paid to DOL requirements and that enrollees' eligibility would be more closely reviewed.

## NON-FEDERAL CONTRIBUTIONS

OEO requires grantees to provide a specified percentage of total project costs either in cash or in-kind contributions. Prior to June 30, 1967, the rate of contribution was 10 percent of project costs and after that date the rate was increased to 20 percent. The non-Federal contributions are required to be recorded as expenditures in the grantee's financial records in such a manner that they are readily identifiable for purposes of determining compliance with OEO requirements.

Similarly, DOL requires that sponsor's non-Federal contributions, as provided for in the agreement, be supported by a formal set of accounts maintained for each budget line item. Documentation is required to be comparable to that required for Federal costs.

During the period July 1965 through June 1969, NEON's expenditures for OEO programs amounted to \$509,000 and non-Federal contributions of \$146,000 were recorded. We found that, except for the 1968 summer recreation program, non-Federal contributions had not been entered in the accounting records as they were made. Non-Federal contributions through December 1968 were recorded in a lump sum by NEON's public accounting firm in December 1968. Non-Federal contributions were not recorded in the 1969 records which were maintained by the city comptroller for the first 6 months and by NEON for the latter part of the year.

We examined the support for the non-Federal contributions recorded by the public accountant in December 1968 as well as data contained in the board of education files and in the city comptroller's files. Some of the amounts recorded were based on certifications by the executive director that the non-Federal share had been contributed.

We satisfied ourselves that the city of Norwalk and the State of Connecticut were making non-Federal contributions. For example, the city provided rental space; heat, light, and power; teachers and teaching supplies; and accounting services and had reimbursed NEON for part of its personnel costs. Also, the State of Connecticut was providing contributions by paying part of NEON's personnel

costs. Due to the lack of adequate support, we were not able to ascertain the amount or percentage contributed.

Our review of the five summer NYC programs showed that the sponsor's share of program costs had not been entered in the records and that documentation was not available to support that the sponsor had contributed the agreed share of the costs. The executive director informed us that he would take appropriate measures to ensure that all non-Federal contributions would be adequately supported and properly recorded in the books of account.

We believe that NEON should prepare and issue instructions to its employees and delegate agencies that non-Federal contributions must be documented and entered periodically in the accounting records. The non-Federal contributions should be recorded periodically on the basis of actual contributions rather than amounts certified by the executive director. We also believe that closer monitoring of program activities by both OEO and DOL is needed to ensure that NEON contributes its share of project costs.

CONCLUSION AND  
RECOMMENDATION TO THE SECRETARY OF LABOR  
AND THE DIRECTOR, OEO

The matters discussed in the preceding sections of this report, in our opinion, indicate that there have been many weaknesses in NEON's control over, and administration of, DOL and OEO funds. Among the more significant weaknesses were the poor condition in which the accounting records were maintained; the delay in or failure to obtain a public accountant's statement on the adequacy of the accounting systems employed; retention of unexpended program funds which should have been returned to DOL and OEO; deficiencies in the preparation and retention of time and attendance records supporting staff and enrollee payrolls; failure to submit timely financial reports to DOL and OEO; questionable eligibility of NYC enrollees; and failure to record, and lack of substantiation for, non-Federal contributions.

NEON's executive director initiated or promised corrective action on the matters that we brought to his attention.

We recommend that the Secretary of Labor and the Director, OEO, monitor the implementation of the corrective actions and take such other action as may be necessary to ensure that NEON adequately corrects the weaknesses in financial and program administration discussed in this report.



**APPENDIXES**



SUMMARY OF OEO GRANTS RECEIVED  
AND FUNDS EXPENDED

NORWALK ECONOMIC OPPORTUNITY NOW, INC.

	<u>Program period</u>				<u>Total</u>
	<u>July 65</u> to <u>Dec. 65</u>	<u>Jan. 66</u> to <u>Dec. 67</u>	<u>Jan. 68</u> to <u>Dec. 68</u>	<u>Jan. 69</u> to <u>Dec. 69</u>	
<b>GRANTS RECEIVED:</b>					
Program component:					
Head Start	\$35,198	\$192,149	\$ 99,291	\$108,085	\$434,723
Program Development		27,615			27,615
Conduct and Administration		41,655	52,762	25,350	119,767
Community Organization				34,650	34,650
Summer Recreation		<u>27,284</u>	<u>22,827</u>	<u>23,000</u>	<u>73,111</u>
Total	<u>\$35,198</u>	<u>\$288,703</u>	<u>\$174,880<sup>a</sup></u>	<u>\$191,085<sup>b</sup></u>	<u>\$689,866</u>
<b>FUNDS EXPENDED:</b>					
Cost category:					
Personnel	\$22,792	\$214,174	\$142,178	\$ 41,060	\$420,204
Consultant and contract services	1,690	5,434	871	556	8,551
Travel	503	11,153	8,685	2,758	23,099
Space costs and rentals		4,011	6,494	300	10,805
Consumable supplies	2,475	16,174	4,242	(279)	22,612
Rent lease or purchase of equipment		6,919	672	102	7,693
Other costs		<u>5,600</u>	<u>8,351</u>	<u>2,982</u>	<u>16,934</u>
Total	<u>\$27,460</u>	<u>\$263,465</u>	<u>\$171,493</u>	<u>\$ 47,479<sup>c</sup></u>	<u>\$509,897</u>

<sup>a</sup>Includes prior year's unexpended funds of \$46,381.

<sup>b</sup>Includes prior year's unexpended funds of \$17,592.

<sup>c</sup>Includes only 1969 expenditures recorded by city comptroller through June 1969. Subsequent expenditures were not all recorded in the accounts nor classified by the above categories as of December 1969.

APPENDIX II

SUMMARY OF DOL FUNDS

RECEIVED AND EXPENDED

NORWALK ECONOMIC OPPORTUNITY NOW, INC.

	July 1965 through October 1969					Total
	<u>1965<sup>a</sup></u>	<u>1966<sup>a</sup></u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	
<b>FUNDS RECEIVED:</b>						
Summer NYC Programs	<u>\$20,080</u>	<u>\$10,238</u>	<u>\$24,420</u>	<u>\$22,690</u>	<u>\$44,190</u>	<u>\$121,618</u>
<b>FUNDS EXPENDED:</b>						
Cost category:						
Personnel	\$19,021	\$ 7,862	\$23,248	\$22,038	\$40,149	\$112,318
Travel			112	180	67	359
Consummable supplies			6	31	86	123
Rent lease or purchase of equipment					90	90
Other costs			98	52	79	229
Total	<u>\$19,021</u>	<u>\$ 7,862</u>	<u>\$23,464</u>	<u>\$22,301</u>	<u>\$40,471</u>	<u>\$113,119</u>

<sup>a</sup>Program administered by the Norwalk Recreation and Parks Commission.