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BY THE COMPTROLLER GENERAL

# Report To The Congress

OF THE UNITED STATES

## Improved Grant Auditing And Resolution Of Findings Could Save The Law Enforcement Assistance Administration Millions

An ineffective system of auditing grant recipients and resolving auditors' findings could be costing the Law Enforcement Assistance Administration millions. Many of its grant recipients are not audited at all. Or, if they are, the audits often do not fully show whether Federal funds are spent properly. What's more, managers often do not take appropriate action on auditors' findings. This results in ineffective and inefficient grant management and allows recipients to keep funds they are not entitled to.

This report recommends that the agency

- develop a coherent and comprehensive policy for achieving adequate audit coverage of all its grant recipients and
- make procedural changes to strengthen auditing as the basic tool for preventing unauthorized expenditures and to see that congressional intent is carried out.



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

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To the President of the Senate and the  
Speaker of the House of Representatives

This report discusses the Law Enforcement Assistance Administration's audit practices, including audits conducted by and of its grantees and subgrantees and the use and disposition of such audits. The report points out that significant procedural changes are needed to strengthen the audit as the basic tool for preventing unauthorized expenditures and assure adequate audit coverage of grant recipients.

We made this review as part of our current effort to expand and strengthen audit activities of Government departments and agencies.

We are sending copies of this report to the Director, Office of Management and Budget; the Attorney General; and the Administrator, Law Enforcement Assistance Administration.

A handwritten signature in black ink, appearing to read "Russell A. Stant".

Comptroller General  
of the United States



COMPTROLLER GENERAL'S  
REPORT TO THE CONGRESS

IMPROVED GRANT AUDITING AND  
RESOLUTION OF FINDINGS COULD  
SAVE THE LAW ENFORCEMENT  
ASSISTANCE ADMINISTRATION  
MILLIONS

D I G E S T

The Congress and the Executive Departments rely on audits of financial transactions and of compliance with applicable laws and regulations. Those audits serve (1) as the basic control over whether public funds are spent as the Congress intended and (2) to prevent loss of funds from fraud and abuse. To be effective, officials must see that audits are made periodically and must act promptly to resolve the findings and implement corrective action.

Top management at the Law Enforcement Assistance Administration (LEAA) has known for years that its recipients--which include State planning agencies, their subgrantees, and grantees receiving funds directly from LEAA--are not being regularly audited. And they know that many audits are not made to find out if recipients comply with Federal grant terms. Nonetheless, little decisive action has been taken to correct the problem, and as a result, the Government loses money that would otherwise be collected or saved.

The lack of adequate guidelines and good procedures at LEAA and some of the State planning agencies prevent all audit findings from being promptly and properly resolved. This is costly in three ways:

- Grantees and subgrantees are keeping funds which they are not entitled to under applicable laws and regulations.
- LEAA and some State planning agencies miss the opportunity to improve grant programs by delaying or foregoing needed corrective actions recommended by auditors.
- LEAA does not get full return on its expenses of the audit.

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A large number of audits remain unresolved and sometimes forgotten for many years. Further, resolution actions are sometimes questionable. Auditors repeatedly report the same deficiencies, indicating that recipients have not taken corrective action. (See pp. 12-18.)

Delays occur in two areas--forwarding audit reports to program managers responsible for resolving the findings and procrastination by program managers in acting on audit findings. For a group of reports prepared by other than LEAA auditors, the average transmittal time was 7 months; of 268 audit reports LEAA listed as unresolved in January 1979, an average of 31 months had elapsed since the reports were transmitted to responsible program offices. Some program managers were not even aware of reports with unresolved findings, even though they were responsible for their resolution. (See pp. 15.)

In addition to the long delays, LEAA's resolution of some findings appears questionable. GAO's review of 156 findings involving eight State planning agencies revealed that most findings were either not acted on, documentation explaining their resolution was lost, or the resolution was questionable. Of the \$8.1 million in expenditures the auditors questioned, LEAA program managers allowed the grant recipients to keep nearly \$8 million, or 99 percent.

Instead of making collections, many findings were cleared based on promises of corrective actions or on certifications that undocumented or questioned expenditures were proper. In one case, auditors identified over \$5 million in improper and undocumented costs. However, relying on the grant recipient's promise to correct the identified deficiencies, LEAA program managers allowed the recipient to keep all but \$12,867 of the questioned expenditures, even though very little evidence of the expenditures' propriety was available. A subsequent LEAA audit disclosed that the grant recipient had not corrected many of the previously identified deficiencies.

Inadequate audit resolution procedures and practices were found at some State planning agencies as well. As of January 1979, one planning agency had 22 audit reports with unresolved findings; the reports had been issued between October 1974 and November 1978. The same planning agency had started collection efforts for audit-related refunds in 1974; however, as of January 1979, the subgrantees had still not returned the Federal funds.

Another State planning agency had no records of actions taken on audit findings before August 1977, and followup on audit findings since then was poor. According to a responsible planning agency official, the agency was not interested in recovering questioned costs because LEAA has shown little interest in collections.

LEAA auditors found that 31 of the 47 State planning agencies reviewed need to improve their followup on audit findings. Some State planning agency program managers do not review or resolve monetary findings nor require that deficiencies be corrected before awarding subsequent grants.

LEAA top management needs to continuously resolve audit findings and to expand its policies for procedural changes to assure that responsible officials act promptly and properly on audit findings.

#### RECOMMENDATIONS

The Attorney General should direct the LEAA Administrator to:

- Develop a coherent and comprehensive policy for achieving adequate audit coverage of all its grant recipients.
- Launch an all-out effort to have all major grant recipients audited within the next 2 years in accordance with this policy.
- Issue guidelines for program managers to use in resolving audit findings.

- Hold a person or persons in program management responsible for timely and proper resolution of findings.
- Designate an official independent of program management and auditing to monitor the substance of audit findings and the propriety of resolutions.
- Require the official to provide top management with quarterly reports showing the disposition of audit findings, including the age and amounts of unresolved findings and results of the findings closed during the period.
- Require auditors to track open findings until all recommended improvements are made, the funds are recovered, the debt forgiven, or the findings are determined to be in error.
- Require written decisions justifying why amounts shown to be due by the auditors' reports were not collected. Such decisions should be reviewed for legality and endorsed by the legal official who performs the review.
- Direct LEAA's Comptroller to provide positive accounting controls over collection of audit-related funds.
- Require program managers and auditors to systematically review the adequacy of State planning agency procedures and practices for issuing audit reports and resolving audit findings.

AGENCY COMMENTS AND  
OUR EVALUATION

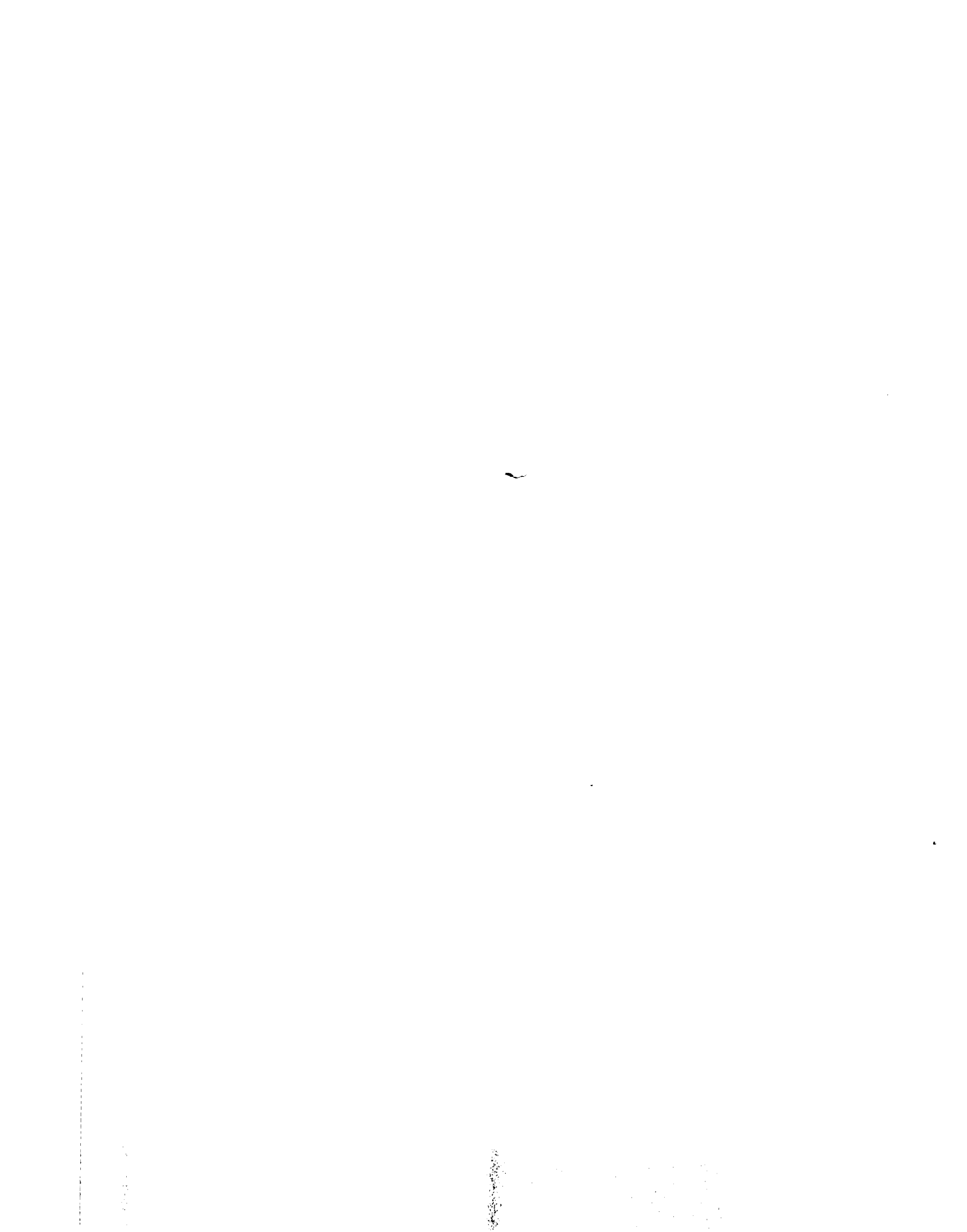
The Department of Justice and LEAA have been aware of the problems in LEAA's audit system and, for the most part, concurred with GAO recommendations. They indicated that they have done or plan to do more work to respond to the problems.



The Department of Justice was concerned that GAO presented no evidence of (1) audit findings improperly cleared or (2) LEAA violation of the law by failing to follow the Comptroller General's decision concerning agency responsibility for collecting expenditures. GAO's experience with other agencies shows, however, that LEAA has an unusually high percentage (99%) of instances of waiving auditors' questions regarding costs claimed by grant recipients. Further, GAO found evidence of audit findings being cleared improperly. (See pp. 15-31.)

The Department of Justice also did not fully concur with GAO's recommendation that program officials justify in writing uncollected amounts shown to be due by auditors' reports, and that such justifications should be reviewed for legality and endorsed by a legal official. They proposed to develop new guidelines requiring discretion to be exercised by program managers. (See p. 26.)

While GAO supports management discretion, it does not believe that such decisions should be made solely by program managers. These decisions, which bear upon a grantee's entitlement and an agency's legal authority, must consistently be made for all grantees according to the law.



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I            October 26, 1979, letter from the  
                 Assistant Attorney General  
                 for Administration

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ABBREVIATIONS

GAO            General Accounting Office  
LEAA           Law Enforcement Assistance Administration  
OMB            Office of Management and Budget

## CHAPTER 1

### INTRODUCTION

The Law Enforcement Assistance Administration (LEAA), within the U.S. Department of Justice, was created by Title 1 of the Omnibus Crime Control and Safe Streets Act of 1968. It represents the major Federal effort to provide financial aid and technical assistance to State and local governments to prevent, reduce, and control crime and juvenile delinquency, and to strengthen and improve State and local law enforcement and criminal justice capabilities. LEAA records show that the Congress appropriated over \$7 billion in funds for LEAA for fiscal 1969 through 1979.

### PURPOSE AND ADMINISTRATION OF LEAA GRANT FUNDS

LEAA carries out its mission primarily by awarding contracts and distributing grants to States, localities, and non-profit organizations. Only a very small amount of money is awarded by contract and therefore is not covered here. LEAA categorizes its grants into two types to distribute funds-- block grants and categorical grants. Block grant moneys, representing the majority of LEAA grant funds (57 to 77 percent), are provided to advance innovative programs consistent with State and local priorities and objectives. Categorical grants are to support special programs and research consistent with national priorities.

Block grants are allocated to the States, territories, and possessions of the United States according to population. Most of the funds are distributed to organizations referred to as State planning agencies, which were created by the act. They, in turn, pass part of the moneys to local governments according to requirements contained in the legislation. These State planning agencies are responsible for planning and administering the block grant funds within general guidelines from LEAA.

Categorical grants are awarded by LEAA either directly or through State planning agencies to local governmental and private organizations. If categorical grants are passed through State planning agencies, they assist LEAA in administering them.

### AUDITS: HELP FOR ADMINISTRATORS TO MANAGE GRANTS

The records and performance of grantees are subject to audit by the responsible Federal agency to assure that the terms and objectives of the agreements under which Federal

funds are granted are complied with. Such auditing is a basic control the agency has in achieving its purposes effectively and efficiently.

Audits often identify sizable amounts of money that should be returned to the Government from grantees who have claimed costs that are not allowable under Government regulations and who have not met matching requirements or other terms of their grant agreements. The auditors "flag" such amounts for management resolution by collection or other means. If the grantee is not entitled to the questioned amounts, they become debts due the Government.

LEAA's grant recipients are required, in accordance with the Office of Management and Budget policy guidance (Circulars A-102 and A-110), to secure a financial and compliance audit at least every 2 years. Under the policy, each executive agency is instructed to use these audits to the extent possible, but to take whatever additional steps are needed to provide for adequate audit of its programs. In addition, LEAA encourages State planning agencies to have their operations audited annually by or under the direction of State auditors. Furthermore, LEAA is required by law to ensure appropriate audit coverage of its grant funds and to cut off further funding to grant recipients that refuse to secure audits as required.

#### LIMITED AUTHORITY FOR ALLOWING QUESTIONED COSTS

Although the Federal agency officials are required to make final decisions on amounts to be recovered from grantees, their authority is limited. Such decisions must be based on Federal laws, regulations, and the terms of grants. An agency cannot waive recovery from a grantee for expending Federal grant funds in violation of the law and its regulations, no matter how well intentioned the grantee may have been when incurring such costs. This decision holds regardless of the recipient's good faith or the Government's bad advice.

#### SCOPE OF REVIEW

We evaluated policies and procedures used for financial and compliance auditing of LEAA grant funds and for ensuring timely and proper resolution of audit findings. We obtained LEAA's statistics on audit coverage of State planning agencies during fiscal 1971 through 1978. In addition, we obtained limited information on subgrantee and categorical grant audit coverage. We examined the timeliness and appropriateness of actions taken to resolve audit findings by LEAA and State planning agency officials.

We made our review at LEAA headquarters and at field audit offices and State planning agencies located in Washington, D.C.; Denver, Colorado; and Sacramento, California. We also visited State audit offices located in Denver, Colorado; Sacramento, California; Portland, Oregon; and Olympia, Washington.

## CHAPTER 2

### AUDITS OF GRANT RECIPIENTS

#### ARE INFREQUENT AND OFTEN INADEQUATE

Audit is a very important management tool for improving the administration of grant programs. Agencies should rely on audits to prevent unauthorized expenditures and to see that congressional intent is carried out. LEAA management is making little use of this tool. Many of its grant recipients are not being regularly audited as required by the Office of Management and Budget (OMB) policy and its own guidelines.

#### GRANT RECIPIENTS ARE NOT BEING REGULARLY AUDITED

OMB policy requires that recipients of Federal grant funds secure a financial and compliance audit at least once every 2 years. LEAA guidelines require that State planning agencies and a reasonable number of their subgrantees be audited annually.

We did not look at LEAA grant recipient audit coverage nationwide since our primary objective was to assess the adequacy of LEAA's followup actions on audit findings. However, our limited review, as well as work performed by LEAA auditors, clearly indicates that none of LEAA's three grant recipients--State planning agencies, subgrantees receiving funds from the planning agencies, and grantees receiving categorical funds directly for LEAA--are being audited as frequently as required. According to LEAA records and audit reports, some may not have been audited at all. Moreover, many audits by non-LEAA auditors are inadequate because they do not verify compliance with the grant terms.

#### Late audits can be costly

Losses that can occur from not performing audits consistent with OMB and LEAA policies are illustrated by what happened to one grantee which, in this case, was also receiving funds from other Federal agencies.

In December 1971, a State planning agency awarded the recipient LEAA grant funds of \$144,499 to be used through June 1973. An independent public accountant's report on the financial management of the first grant was issued 4 months after a follow-on grant of \$143,832 was made. The report disclosed many irregularities and weaknesses in internal controls, travel and salary advances, staff travel, salary increases, interfund transfers, and overexpenditures of grant funds.



Acting on the audit findings, the planning agency promptly put the grantee in receivership under its authority.

As part of its resolution efforts, LEAA referred the case to the Department of Justice because of possible fraud against the Government; however, Justice declined to prosecute. LEAA closed the audit findings 2-1/2 years later, in February 1976, noting that, "We can determine no further course of remedial action."

Had either a preaward audit or a regular audit been made before the follow-on grant was awarded, these discrepancies would likely have been discovered and corrective action required before the follow-on grant was awarded. At a minimum, the grants could have been terminated earlier with a substantial savings of grant funds.

#### INSUFFICIENT AND OFTEN UNSATISFACTORY AUDITS OF STATE PLANNING AGENCIES

It is LEAA policy that annual audits of State planning agencies are to be performed by or under the direction of the appropriate State audit agency. According to LEAA records, not all planning agencies are being audited either by their State auditors or independent public accountants, and of those that are, most are not being audited as frequently as required by LEAA or OMB policy.

LEAA records show that for the 8-year period ending September 1978, 11 of the 55 planning agencies had not been audited by non-LEAA auditors and 24 had been audited only once. For example, LEAA auditors reported that one planning agency, which had received over \$200 million in grant funds and had awarded 1,100 subgrants over a 6-year period, had never arranged for an audit of its own operation, nor of a reasonable number of its subgrantees.

State planning agencies have also been audited by LEAA. However, considering both non-LEAA and LEAA audits, the agencies are not being audited often enough. Of the 55 planning agencies, 31 were audited only once or twice during the 8-year period, according to LEAA records. The following table summarizes the audits made of State planning agencies from fiscal 1971 through 1978, according to LEAA's audit report control log. (It reflects the number of audits performed and not the number of State planning agencies covered.)

Auditing entity	1971	1972	1973	1974	1975	1976	1977	1978	Total
LEAA	1	10	16	7	8	2	5	11	60
Other (note a)	0	0	2	9	8	18	27	12	76
	<u>1</u>	<u>10</u>	<u>18</u>	<u>16</u>	<u>16</u>	<u>20</u>	<u>32</u>	<u>23</u>	<u>136</u>

a/State auditors, independent public accountants, or Department of the Interior auditors.

Audit coverage has been improving. Forty-two planning agencies were audited in the past 2 years. However, the coverage is less than the figures indicate. One reason is that State auditors often do not follow LEAA's audit guide and audit only for their own purposes without considering Federal laws and regulations. For example, in two recently unissued regional surveys, LEAA auditors found that in one group of 13 States where State auditors audited their planning agency, 5 States did not review planning agency adherence to applicable Federal laws and regulations.

Another reason the figures may be misleading is that recent LEAA audits were functional, covering only a small portion of a planning agency's operations. Such audits can be useful, but they do not replace comprehensive financial and compliance audits that grant recipients are required to obtain.

LEAA knows planning agencies are not audited but has not corrected the problem

LEAA is not systematically reviewing its planning agencies to see that they are regularly audited. It does, however, receive copies of audit reports of planning agencies and keep records on LEAA and non-LEAA audits. Through this, and other means, LEAA management has known for years that many planning agencies were not being regularly audited and that a few had not been audited by non-LEAA auditors. It has also known that some of the audits were not made for Federal purposes. Despite this knowledge, LEAA management has not taken decisive action to correct the problems.

INSUFFICIENT AUDITS OF STATE PLANNING AGENCY SUBGRANTEES

LEAA officials stated that State planning agencies are required to pass down to local governmental and other entities at least 40 percent of LEAA grant funds received and to have a plan for auditing these subgrantees. By law, LEAA is required to ensure that planning agencies provide for and

perform audits of grant funds, and to cut off further funding if the audits are not made.

Not all planning agencies are regularly auditing their subgrantees as required, and most audits done are of limited scope. An LEAA survey of 47 planning agencies showed that 41 generally limited their audits of subgrantees to financial coverage, placing little, if any, emphasis on finding out if subgrantees are adhering to Federal legal and regulatory requirements. It also noted that not all planning agencies have ongoing provisions for auditing their subgrantees. For example:

--One planning agency had not performed any audits of its subgrantees for 17 months. The planning agency's audit staff had resigned, and the agency took 14 months to contract with a certified public accounting firm to audit its subgrantees.

--As of February 1979, another planning agency had not audited of its subgrantees since December 1975. The planning agency had eliminated the audit function as an independent activity, and the accounting division staff was performing what LEAA auditors termed little more than voucher reviews.

--Two other planning agencies filled their audit positions with auditors who had no prior audit experience.

At least a few planning agencies are not promptly issuing reports for audits they have made. Our review at one planning agency disclosed that planning agency auditors had completed four subgrantee audits during fiscal 1977, identifying \$170,441 in questioned costs and other deficiencies, such as lack of documentation to support personnel expenditures and poor accounting systems. However, as of February 1979, records showed that only one audit report, with questioned costs of \$17,428, had been issued by the planning agency. LEAA auditors, in a report on another State planning agency, also noted that the planning agency had not issued 28 subgrant audit reports.

LEAA knows subgrantees are not audited  
but has not corrected the problem

LEAA does not currently have a systematic arrangement for seeing that planning agencies are auditing their subgrantees as required by law. Nonetheless, LEAA management has known for years that many subgrantees were not regularly audited. Despite this knowledge, they had not taken action to correct the problem.

LIMITED AUDIT COVERAGE OF  
RECIPIENTS OF CATEGORICAL GRANTS

Recipients receiving categorical grants directly from LEAA are also among those required by OMB (Circulars A-102 and A-110) to secure an audit at least every 2 years.

LEAA does not have current statistics on whether such audits are being made. However, there are indications that the audit backlog is sizable.

According to figures compiled by LEAA's central audit operations division, as of January 1978, identifiable audits were made of only 13 percent of the \$158 million in categorical grants awarded in 1974, 12 percent of the 1975 awards, 5 percent of the 1976 awards, and a negligible amount of those grants awarded in 1977. More audits may have been made since categorical grants are sometimes audited in block grant audits. Also, grantees may have secured their own audits, but, LEAA has very little information on those audits.

LEAA auditors have audited some of these recipients. They are presently concentrating on two categorical programs--Community Anti-Crime and Juvenile Justice. They are auditing both new grantees and those grantees not audited, but do not intend to have their audits replace those that should be secured by grant recipients.

REASONS FOR SPARSE AND INADEQUATE AUDITS

LEAA's policies and procedures do not assure that its grant recipients are regularly audited and that the audits satisfy Federal needs. Moreover, LEAA management has not acted to see that its audit policies were carried out.

Audits of State planning agencies

LEAA's policy currently encourages State planning agencies to be audited by State auditors. Its policy also states that its audit guidelines should be followed for such audits. We consider these policies sound, but unfortunately, LEAA management has not acted to enforce them.

LEAA should take a more active role in auditing planning agencies. It needs to work with State auditors and planning agencies to arrange for State auditors or other Federal auditors to perform the audits. Where acceptable arrangements cannot be made, LEAA needs to require planning agencies to secure an audit by an independent public accountant. If audits are still not made, top LEAA management should take a hard line in seeing that the audit is performed.

LEAA also needs to require that Federal audit guidelines be used in audits of State planning agencies. A standard Federal audit guide 1/ should be used when State planning agencies receive funds from other Federal agencies. LEAA auditors and program officials must, of course, review all non-LEAA audits of planning agencies to assure that proper guidelines are followed and require a supplemental audit if they are not.

### Audits of subgrantees

LEAA currently has no procedures for assuring that funds subgranted by State planning agencies are audited. State planning agencies are required by law to provide for audits of LEAA grant funds received, and until 1977 LEAA required planning agencies to submit plans for such audit coverage and provide information on audits made. It needs to reinstate this requirement.

Arranging for audits of subgrantees that receive LEAA grants from State planning agencies is not a simple matter and cannot be left to the discretion of planning agencies.

Several subgrantees receive grant funds from other Federal agencies as well as from LEAA. As we recommended in a recent report on grant auditing, 2/ such a recipient should receive one financial and compliance audit covering all its Federal funds, rather than having grants of each agency audited separately. This requires coordination with all funding organizations and could mean that some organization other than one of LEAA's State planning agencies would make the audit.

Accordingly, LEAA needs to join with its planning agencies to make proper arrangement for audits of subgrantees that receive funds from other Federal agencies. Planning agencies can retain primary responsibility for auditing and coordinating audits of their subgrantees that do not receive grant funds from other Federal agencies.

LEAA also needs to establish systematic procedures for reviewing its planning agencies to see that audits of subgrantees are made. When lapses in audits recur, LEAA management should take a hard line in seeing that all required audits

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1/Such a guide has been developed by GAO, OMB, and the Intergovernmental Audit Forum. OMB is working with the Federal agencies to implement the guide.

2/"Grant Auditing: A Maze of Inconsistency, Gaps, and Duplication That Needs Overhauling," FGMSD-79-37, June 15, 1979.

are made. As with planning agency audits, LEAA auditors and program managers must selectively review the audits to see that they are adequate.

#### Audits of categorical grant recipients

LEAA has no comprehensive policy for auditing or monitoring the audits of its categorical grant recipients. Such recipients are audited by a variety of audit organizations: LEAA, other Federal agencies, State auditors, planning agencies, and independent public accountants hired by grant recipients.

LEAA needs to establish which of its categorical grant recipients are going to be audited by other than LEAA auditors. It needs to monitor these audits to assure that they are performed as planned and that they satisfy LEAA requirements. LEAA management also needs to assure that it has sufficient audit staff to audit those categorical grant recipients for which LEAA assumes responsibility. These audits should be performed as often as required by its own or OMB regulations.

#### CONCLUSIONS

Auditing is beneficial to management because it can provide an independent early detection of deficiencies in the control and management of program funds and other activities as well as recommend possible solutions. Accordingly, it is important that audits be made on a regular basis, consistent with potential problems and grant periods and that they check compliance with grant terms.

The frequency and scope of audits of LEAA grant recipients is insufficient to provide timely detection of real and potential deficiencies. Accordingly, LEAA is not realizing the full benefit of the audit as a management tool. To improve matters, we believe that top management in LEAA must impress managers with the importance and value of auditing. Top management also needs to establish better procedures for seeing that audits are made.

#### RECOMMENDATIONS

We recommend that the Attorney General direct the LEAA Administrator to take the following actions.

1. Develop a coherent and comprehensive policy for achieving adequate audit coverage of all its grant recipients. This policy should, as a minimum, discuss the concept of each recipient receiving a single financial and compliance audit covering all Federal funds, define the role and participation

of non-LEAA auditors in performing the single audit, and establish actions to be taken when recipients do not obtain audits as agreed. The policy should require that:

- LEAA program managers and auditors work out agreements with State auditors and planning agencies for making regular audits that satisfy Federal requirements.
- LEAA program managers and auditors join with planning agencies to make appropriate arrangements for single, coordinated audits of subgrantees that receive grants from other Federal agencies.
- LEAA program managers and auditors make arrangements for auditing categorical grant recipients.
- Non-LEAA auditors use Federal audit guidelines where appropriate.
- LEAA program managers and auditors establish monitoring procedures to see that required audits are made as planned.

2. Launch an all-out effort to have all major grant recipients audited within the next 2 years in accordance with this policy.

#### AGENCY COMMENTS AND OUR EVALUATION

The Department of Justice basically concurs with our recommendation to develop a comprehensive policy for adequate audit coverage of all LEAA grant recipients. The Department is now developing requirements requiring that LEAA grant recipients be audited every 2 years.

The Department is also attaching a special condition to all 1980 formula grant awards for States which have not had an audit report issued since October 1, 1977. It will provide for a beginning date for any required audit no later than May 1, 1980, and the submission of a final audit report by July 30, 1980. The Department is currently working with OMB to resolve problems in achieving financial/compliance audits on an organizationwide basis to cover all Federal funds. If properly carried out, these actions should greatly improve the audit coverage of LEAA's grant recipients.

### CHAPTER 3

#### AUDIT FINDINGS ARE NOT

#### PROMPTLY OR PROPERLY RESOLVED

LEAA is not realizing the full benefit of its own audits or audits from other sources. Both LEAA and the State planning agencies let audit findings remain unresolved for long periods. Further, they often resolve findings without assuring that corrective actions are taken and without collecting questioned costs. This is very costly because recipients continue to administer grant funds ineffectively and inefficiently. Also, some grant recipients continue to keep Federal funds they may not be entitled to. We reviewed 156 findings resolved by LEAA program managers and found that they had allowed grantees to keep 99 percent of the \$8.1 million in cost auditors had questioned.

We identified three major problems. One, LEAA does not systematically monitor the State planning agencies to assess the adequacy of their policies and procedures for resolving findings and to see if these are followed. Two, LEAA had not, at the time of our review, clearly prescribed what action program officials are to take when planning agencies do not perform the assigned duties, fail to comply with the terms of their grants, or fail to make improvements required by LEAA. By law, LEAA is to discontinue further payments to planning agencies for such failure. Three, LEAA policies and procedures to be followed by its own staff in resolving findings of audit reports it issues and receives are inadequate.

#### FINDINGS ARE RESOLVED BUT PROBLEMS CONTINUE

To get maximum benefit from audits, management needs to correct the problems identified. However, in this review as well as in a prior survey on LEAA, 1/ we noted that many of the same deficiencies of planning agency and subgrantee activities keep recurring. Over the years, different auditors continue to report the same general administrative and financial problems. Thus, while some findings for individual audits may appear to be reasonably resolved, the underlying problems remain uncorrected.

The following are some recurring findings noted in this review, in LEAA audits, and in our prior survey.

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1/Dec. 22, 1978, letter on our observations to the Acting Administrator.



- Planning agencies were not making proper amounts of grant funds available to local governments.
- States were not providing required matching funds.
- Recipients were not keeping inventory records of property.
- Recipients' accounting records did not document expenditures.
- Planning agencies and subgrantees were maintaining unnecessarily large cash balances.

Some of these findings have persisted at some grantees since the early 1970s.

Delays by LEAA in resolving findings

LEAA's policy is to receive grantee responses on audit resolution actions taken or planned within 60 days. LEAA has not come close to achieving this.

From LEAA records on audit findings as of December 31, 1977, we identified 340 "open" audit reports listing over \$25 million in questioned costs and other unresolved findings. <sup>1/</sup> About 32 percent were over 2 years old. An aging schedule of the 340 reports is shown below.

	Number of months						Total
	<u>3-6</u>	<u>7-12</u>	<u>13-18</u>	<u>19-24</u>	<u>25-30</u>	<u>31 and over</u>	
Number of reports	72	69	67	23	28	81	340
Percentage unresolved	21%	20%	20%	7%	8%	24%	100%

One year later, in January 1979, LEAA compiled a new list showing 318 open reports. This included 201 reports with questioned costs of \$21 million that had been open when we compiled

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<sup>1/</sup>These were identified in our report "More Effective Action Is Needed on Auditors' Findings--Millions Can Be Collected or Saved," FGMSD-79-3, Oct. 25, 1978. A later, more detailed LEAA review revised the amount of questioned costs to over \$29 million. Of this total, LEAA determined that approximately \$17 million was resolved (cleared) as of March 22, 1979. However, on the amount cleared, only \$703,000 was received in actual refunds or deobligations.

our figures in December 1977, indicating that another year's delay was added to the majority of the reports and that most of the questioned expenditures remained unresolved.

The following examples illustrate where and, in some cases, why the delays occur.

- An audit report for a grant of \$7,299 was sent to an LEAA region by a planning agency in March 1975. A year and 7 months later, LEAA auditors sent the report to the responsible program manager for resolution. Ten months later, in August 1977, the program manager wrote the findings off as unresolvable because the audit was too old.
- An audit report was sent to the LEAA program office for resolution of findings in July 1974. The report identified \$141,000 in questioned costs, primarily because the grantee could not document the required matching contribution for the Federal funds received and had a poor accounting system. In March 1977, 2 years and 7 months later, the responsible LEAA program manager admitted that this open audit report had been forgotten. Another year and 4 months later, in July 1978, the report was still open and the current responsible program manager did not know anything about the report when we contacted her. After 4-1/2 years, the report was still listed as open on LEAA's January 10, 1979, listing of unresolved audit reports.
- An audit report was issued for resolution of findings in August 1975. The grantee had no time and attendance records and therefore could not justify \$43,560 in salary expenditures, had not provided \$9,786 of required matching funds, and had no property control system. The findings were still unresolved in June 1978, when we contacted the responsible program manager. She said that neither she, nor anyone else in her office, was aware that the findings had to be resolved. The report was still listed as unresolved by LEAA in January 1979.
- The auditors sent an audit report to the program office for resolution in March 1977. The report identified questioned costs of over \$4 million, primarily because the State planning agency had not established an adequate accounting system. The planning agency and some of its subgrantees could not adequately document the required matching contributions, as well as numerous other expenditures. Over \$200 million in LEAA grant funds had been awarded to the planning agency

over the past 6 years. Initially, the program office acted promptly and insisted that due to the critical nature of the findings, the planning agency submit a reply no later than June 27, 1977. The grantee sent its response to LEAA on July 5, 1977. However, 1 year later, on July 10, 1978, when we discussed the report with LEAA program officials, we found that they had not yet completed their review of the grantee's response. The program official responsible for clearing the case since November 1977 was not even aware of the open report when we spoke to him about it. He told us that even with the prompt transfer of this report to him he might not be able to resolve the findings immediately because of other, higher priority work. According to LEAA records, the findings of this report were still unresolved on January 10, 1979, nearly 2 years after it had been issued.

Delays result from two causes

Delays occur in two areas. First, grant recipients and auditors do not promptly forward audit reports to program managers responsible for resolving the findings. Grant recipients sometimes fail to forward reports to LEAA and do so only when LEAA finds out about the reports. For one group of non-LEAA reports, the average transmittal time was 7 months.

Second, and more important, is procrastination by program managers in resolving audit findings. Of 268 audit reports 1/ listed by LEAA as unresolved in January 1979, an overall average of 31 months had elapsed since responsible LEAA program offices had received the reports. We found that some program managers were not even aware of some reports with unresolved findings, even though they were responsible for their resolution. An aging schedule for the 268 reports is shown below.

	Number of months						Total
	<u>1-6</u>	<u>7-12</u>	<u>13-18</u>	<u>19-24</u>	<u>25-30</u>	<u>31 and over</u>	
Number of reports	25	41	40	35	18	94	268
Percentage unresolved	9%	15%	15%	13%	7%	35%	100%

1/ This included open reports issued through the end of fiscal 1978. It does not include 50 open reports issued in fiscal 1979 which LEAA included in its computation as reported on pp. 13-14.

LEAA has taken some action. It recently eliminated one level of internal review within audit, which we were told had often delayed transmitting reports to LEAA program managers. Also, since late 1978 LEAA has mounted an effort to resolve its backlog of unresolved audit reports. LEAA records showed that as of March 1979, program officials had resolved 194 of the audit reports we originally identified, and that \$703,000, or 4 percent, of \$16,930,000 in questioned costs had been recovered. We did not review the propriety of any of these resolutions.

#### QUESTIONABLE RESOLUTION OF FINDINGS BY LEAA

To test LEAA's procedures for resolving audit findings, we reviewed the resolution actions on 156 findings which involved eight State planning agencies. In our analysis, we judged that some were fairly resolved; that is, corrective action was taken or clearance seemed reasonable. However, most findings were either not acted on, had no documentation to determine how they were resolved (LEAA officials said the documentation was lost), or we judged that the resolution action taken was questionable. To the extent that records were available, we found that LEAA program managers allowed grantees to keep \$7,976,279, or 99 percent, of the \$8,071,671 costs auditors had questioned in the 156 findings we used in our analysis. A few examples are discussed below.

In one case, auditors identified over \$5 million in improper or undocumented costs. Some of the questioned costs included (1) over \$3 million for personnel expenditures that were related to the grant program, but for which no supporting time and attendance records existed, (2) \$164,483 for travel and \$226,898 for supply and operating expenses for which inadequate documentation existed to show the relationships between these amounts and the grant program, and (3) \$182,582 of nonexpendable property and equipment purchased with grant funds that the grantee was unable to account for. After a grantee official indicated he would not refund amounts questioned in the audit report, LEAA's program manager suggested an "audit around the system" to clear the findings. We were unable to determine what this audit consisted of, or what evidence it produced, since LEAA could not locate the records for us. LEAA's program manager, while allowing the grantee all but \$12,867 of the questioned expenditures, stated

"\* \* \* this office was forced to rely on circumstantial evidence which would not tie expenses to a grant, but instead which would indicate only some relationship which would provide a basis for assuming that expenses could have been made for the grant \* \* \*."

This statement is rather cavalier considering the grantee had been awarded more than \$13 million in LEAA grant funds during the previous 6 years and had not yet developed and implemented an adequate accounting system. As could be expected, a subsequent audit revealed that the grantee's accounting system was still deficient; there were dual sets of time and attendance reports, insufficient support for personnel expenditures, and inadequate controls to tie source documents to applicable grants.

In five findings of another report, auditors questioned over \$1.9 million in improper and undocumented costs. The recipient State planning agency could not document matching contributions for over \$1.5 million of Federal funds; it did not pass through to local units of government \$138,000 of Federal grant funds as required by law; and the planning agency as well as some of its subgrantees had claimed \$208,000 in improper and undocumented expenditures. Instead of requiring the planning agency to submit the detailed justifications LEAA asked for previously, LEAA program managers accepted five general statements from the planning agency certifying that all questioned funds had been properly expended.

In this regard, a Comptroller General decision (B-163922, Feb. 10, 1978) discusses an agency's responsibility for collecting improper expenditures which auditors questioned. It states that an agency (without explicit statutory authority to do so) cannot waive recovery from a grantee for expending Federal grant funds in violation of the law and its regulation, no matter how well intentioned the grantee may have been when incurring such costs.

LEAA auditors recently resumed their previous practice of reviewing the propriety of clearance actions by LEAA program managers. However, agency policy does not require them to make such reviews, nor do agency procedures provide a mechanism by which disagreements over the resolution of findings between auditors and program managers can be resolved.

UNTIMELY AND OFTEN INADEQUATE  
RESOLUTION OF STATE PLANNING AGENCY  
BLOCK SUBGRANTEE AUDITS

As we stated in chapter 2, planning agencies are responsible both for auditing of its block subgrantees and for resolving the findings of these audits. However, many of the State planning agencies are not resolving audit findings promptly and adequately.

According to a recent survey by LEAA auditors, 31 of 47 State planning agencies they reviewed needed to improve their followup on audit findings. According to LEAA auditors,

planning agency program managers often do not review or resolve monetary findings or require that deficiencies be corrected before awarding subsequent grants to the subgrantee audited. For example:

--One planning agency filed audit reports that did not require the return of grant moneys in an "inactive" binder, and no further action was taken. On monetary exceptions, the planning agency initiated action only when the subgrantee could keep the questioned funds through a grant adjustment. In other instances, the planning agency waited passively for a response from the subgrantee.

--Another State planning agency had issued grant adjustment notices to relieve subgrantees of 88 percent of refunds due, even though this was against planning agency policy.

Our review of audit resolution records of two State planning agencies revealed similar problems. At one planning agency, we noted delays both in making final decisions on audit findings and in collecting audit-related refunds. According to its tracking system, the planning agency had 22 audit reports with questioned costs of \$657,723 and other unresolved findings as of January 31, 1979. The issue dates of the reports ranged from October 1974 to November 1978. It also had other uncleared reports awaiting collection of audit-related refunds that were no longer included in the tracking system. We therefore could not determine the exact number of such reports. However, for six reports we identified, collection efforts had started in 1974, and as of January 31, 1979, the subgrantees had still not returned the Federal funds.

We found that another State planning agency had no records of actions taken on audit findings before August 1977, and followup on audit findings since then was poor. It also postponed resolution by not issuing audit reports. We identified five audit reports issued before August 1977, with over \$430,000 in questioned costs and were told by planning agency officials that it is very likely no followup actions had ever been taken. Of 20 audit reports issued after October 1, 1977, which had \$109,445 in questioned costs and other findings, only 6 had been cleared by February 1979. None of the costs questioned by the auditors had been sustained.

The official responsible for clearing audit findings said that the planning agency is not interested in recovering questioned costs because LEAA has shown little interest in collecting. The planning agency's reluctance to collect audit-related refunds from subgrantees goes so far that one audit report

completed in August 1978 had not been issued 6 months later, because the planning agency was not sure it had the authority to allow the subgrantee to keep the questioned costs.

#### SOME REASONS FOR PROBLEMS IN RESOLVING AUDIT FINDINGS

LEAA's procedures and practices for resolving findings are inadequate. The major weaknesses are as follows:

- The Agency's system for monitoring and reporting the status of findings and their disposition is inadequate.
- No one within the program function is held accountable for seeing that program managers promptly and properly resolve audit findings.
- No mechanism, independent of the program administration and auditing, exists to resolve disagreements between auditors and program managers and to assure that all findings are promptly and properly resolved.
- The agency's procedures for providing accounting controls over collection of audit-related refunds are incomplete, and good existing procedures are not followed.
- LEAA deleted the requirement that State planning agencies periodically report on actions taken on audit recommendations.

In addition to these procedural weaknesses, top management appears to have given little attention to the resolution of audit findings. Following this lead, program managers give resolution of findings a low priority.

#### Need for a strong system to monitor and control the resolution of findings

LEAA auditors are monitoring the resolution of audit findings as prescribed by LEAA guidelines. However, they have not done this job very well. Their records are not accurate, partly because program officials often have not informed them about resolved audits and partly because not all reports have been monitored. Also, the auditors have reported to program officials only sporadically on the status of findings and actions taken. As a result, program managers have occasionally forgotten that findings were still unresolved.

One needed improvement to the system is for someone, perhaps auditors, to regularly--preferably monthly--provide program offices and top management with a report on open findings. LEAA's present procedures call for the auditors to prepare a

monthly report; however, they do not require that the report be sent to program officials or top managers. This is necessary to keep program officials informed and to make actions taken on audit findings more visible to top management.

Top management also needs a report on how findings are resolved. Such a report on the disposition of findings should indicate whether the auditors' findings were sustained, and if sustained, what corrective actions were taken and the amount of refunds collected. This report should be prepared by program management.

#### Program offices need to be responsible for timely resolution of findings

Under present procedures, LEAA auditors are given the adversary role of seeing that program managers resolve findings promptly and properly. This is ineffective because auditors do not have authority over program managers and because LEAA guidelines state that clearance actions on audit findings by program managers are final.

Someone within program management, rather than auditors, should be held accountable for seeing that subordinate program officials promptly and properly resolve audit findings.

#### Need for an independent official to mediate differences between program managers and auditors

In addition, an official independent of program management and auditing should be made responsible for monitoring the resolution of audit findings. This person should monitor the substance of audit findings and the propriety of resolutions. Also, since LEAA presently does not have a system that provides for final settlement of major disputes on audit findings between managers and auditors, this person should have that responsibility. And further, that person should be required to make the final decision on audit findings not resolved by program managers within 6 months.

#### Accounting controls needed for questioned costs

LEAA procedures call for the Comptroller to be provided information on questioned costs from audit findings after the program manager sustains all or part of the amount the auditors questioned. Unfortunately, this procedure is usually not followed and is not complete. Responsible officials in the Comptroller's office said they seldom receive information from program managers on refunds due. Since LEAA procedures do not



call for the auditors to inform the Comptroller of costs they have questioned, the Comptroller's office is usually unaware that refunds might be due LEAA. In addition, collections on refunds are often not identified as audit related and therefore, the Comptroller does not have records showing if and when audit-related refunds are recovered.

LEAA's procedures should be expanded to require auditors to inform the Comptroller of the amount they questioned in each audit report issued; and program managers should be required to inform the Comptroller of the questioned costs sustained or allowed as soon as they have determined this. The Comptroller should keep a subsidiary record of all questioned costs, record as receivables those substantiated by program officials, and subsequently record the actual collection and deposit of any refunds collected.

No means to assure timely and proper resolution of findings by planning agencies

LEAA program managers and auditors need to regularly review planning agencies to assure that they have adequate procedures to resolve audit findings and to assure that they adhere to these procedures. Even though decisions over block grant expenditures are under the purview of the States, LEAA is ultimately responsible to see that these funds are spent according to Federal laws and regulations.

CONCLUSIONS

The lack of adequate guidelines and good procedures at LEAA and some of the State planning agencies prevent all audit findings from being promptly and properly resolved. This is costly in three ways: (1) grantees and subgrantees are keeping funds which they are not entitled to under applicable laws and regulations, (2) LEAA and some State planning agencies miss the opportunity to improve grant programs by delaying or foregoing needed corrective actions recommended by auditors, and (3) LEAA does not get full return on its expenses of the audit.

RECOMMENDATIONS

We recommend that the Attorney General direct the LEAA Administrator to take the following actions and direct that agency procedures be revised accordingly:

1. Issue guidelines for program managers to use in resolving audit findings. These guidelines should specify when questioned costs must be sustained, when they can be allowed, when legal review or other expert advice is necessary, and when program managers should cut off or delay funding until recipients correct the deficiencies identified by the auditors.

2. Hold a person or persons in program management responsible for timely and proper resolution of findings.

3. Designate an official independent of program management and auditing to monitor the substance of audit findings and the propriety of resolutions. This official should also mediate disputes between program managers and auditors over findings and their resolution and decide on actions to be taken on findings not resolved within 6 months.

4. Require such an independent official to provide top management with quarterly reports showing the dispositions of audit findings, including the age and amounts of unresolved findings and results of the findings closed during the period.

5. Require auditors to track open audit findings until all recommended improvements are made, the funds are recovered, the debt forgiven, or the finding is determined to be in error.

6. Require program officials to justify in writing why any amounts shown to be due by the auditors' reports are not collected. Such decisions should be reviewed for legality and endorsed by the legal official who performs the review.

7. Expand agency procedures that provide accounting controls over collection of audit-related refunds by requiring auditors to inform the Comptroller of all questioned costs, and direct program managers to follow agency procedures by notifying the Comptroller of all questioned costs to be collected or allowed. In addition, direct the Comptroller to establish appropriate records and periodically issue a status report on amounts outstanding, collected, and allowed.

8. Require program managers and auditors to systematically review the adequacy of State planning agency procedures and practices for issuing audit reports and resolving audit findings.

#### AGENCY COMMENTS AND OUR EVALUATION

The Department of Justice and LEAA have been aware of many of the problems in LEAA's audit resolution system and generally concurred with our recommendations. Their comments indicated that they have done or plan to do more work to respond to the problems. Although our recommendations are specifically tailored to LEAA, we covered many of them in our Government-wide report, "More Effective Action Is Needed On Auditors' Findings--Millions Can Be Collected Or Saved." Agencies generally agreed with our recommendations, and the Office of Management and Budget is taking action to implement them.

The Department of Justice was concerned that we have presented no evidence that audit findings were improperly cleared, and that LEAA has failed to follow the Comptroller General's Feb. 10, 1978, decision concerning agency responsibility for collecting expenditures which violated a law or regulation. However, our experience with other agencies shows, that LEAA has an unusually high percentage of instances where grant recipients were allowed to claim costs questioned by auditors (99 percent).

Further, we found evidence of audit findings being cleared improperly. (See pp. 15-17.) In one case, LEAA cleared audit findings based solely on a local official certifying that required matching funds and costs questioned by Federal auditors were properly expended. We believe this practice was improper. During the review, an official of LEAA's General Counsel agreed that this clearance appeared improper. Although we are sure LEAA agrees in principle with the Comptroller General's decision, we found practices which do not insure that the decision is carried out as intended.

The Department of Justice also did not fully concur with our recommendation that (1) program officials be required to justify in writing why amounts shown by auditors to be due were not collected and (2) such decisions should be reviewed for legality and endorsed by a legal official. They proposed to develop new guidelines establishing bounds for discretion to be exercised by program offices. While we support management discretion, we do not believe such decisions should be made solely by program managers. These decisions, which bear upon a grantee's entitlement and an agency's legal authority, must be consistently made on a legal basis for all grantees.

We also made this recommendation in our Government-wide report referred to above. In response, the Office of Management and Budget has recently issued new guidance instructing executive agencies to justify in writing, citing the legal basis, why amounts due as a result of audit reports were not collected.



## UNITED STATES DEPARTMENT OF JUSTICE

WASHINGTON, D.C. 20530

Address Reply to the  
Division Indicated  
and Refer to Initials and Number

OCT 26 1979

Mr. Allen R. Voss  
Director  
General Government Division  
United States General Accounting Office  
Washington, D.C. 20548

Dear Mr. Voss:

This is in response to your request to the Attorney General for the comments of the Department of Justice (Department) on your draft report entitled "Audit Coverage of Law Enforcement Assistance Administration Grants Is Sparse And Resolution Of Auditors' Findings Is Ineffective."

The management actions that the Law Enforcement Assistance Administration (LEAA) is taking to implement the audit recommendations of the Management Advisory Task Force have anticipated many of the recommendations of the General Accounting Office (GAO) draft report.

LEAA's audit function has had intense scrutiny during this past year. During this period LEAA's Office of Planning and Management (OPM) conducted studies of the Office of Audit and Inspection (OAI) program review function and of LEAA policy and procedures for clearance of audit reports. Another task force has developed substantive criteria to guide the clearance of audit findings. The Management Advisory Task Force reviewed these reports, conducted further interviews, including interviews with Departmental auditors who were reviewing OAI management controls. The Task Force submitted its report on the LEAA audit function in April 1979. This report included 24 recommendations for improvement of audit effectiveness. LEAA has implemented or will implement most of these recommendations.

During October, the Assistant Administrator of OPM and the General Counsel are chairing the proceedings of an audit policy working group which includes staff drawn from all offices with major roles in clearance of audit reports. The group has been formed pursuant to the recommendations of the task force.

The working group will address: (1) implementation of Office of Management and Budget Circular (OMB), Uniform Administrative Requirements For Grants In Aid To State and Local Governments (A-102) audit requirements, (2) priorities for audit of compliance requirements, (3) priorities for causal analysis during development of audit findings, (4) development of policy to assure consistent dispositions of audit findings, (5) State Planning Agency (SPA) roles during clearance of audits conducted by state and local audit agencies, (6) opportunities to streamline clearance procedures, and (7) establishment of policy for award of new grants to grantees with open audits.

These deliberations will be the major substantive step during implementation of the recommendations of the task force. After the LEAA Administrator's review, these recommendations will determine the final form of the audit guidelines to be incorporated in LEAA Guideline Manuals, Financial Management For Planning and Action Grants (M 7100) and State Planning Agency Grants (M 4100), supplementary guides for audit of program compliance requirements, substantive guidance for clearance of audit findings, and comprehensive procedures establishing office roles, responsibilities, and authority.

The Department's position and comments on the findings and recommendations in the GAO draft report follow.

Page 21 of the GAO report states that 318 audit reports were open in January 1979, including 201 which had been open in December 1977. However, page 24 of the report states that 268 audit reports were open in January 1979. This apparent inconsistency should be resolved.

Clearance of open audits has been an administrative priority during this past year. As of September 1979, the number of audits open after more than one year had been reduced to 79. Of the 340 audits which were open in December 1977, 221 were responsibilities of the Office of Criminal Justice Programs. All but 47 of these have been cleared. Effort to clear these reports is proceeding, and emphasis on newly issued audit reports is being maintained. Fewer than 35 percent of the audit reports open in September 1979 had been issued for more than six months. Nearly half of those were reports which had been open in December 1977. Clearance of these reports has been difficult because of their age and administrative complications caused by closure of LEAA's regional offices during that year.

GAO made no allegations that LEAA has failed to follow the Comptroller General's decision concerning agency responsibility for collecting expenditures which were in violation of law or regulation, but referenced this decision on pages 3 and 27 of the draft report. We believe GAO should either delete these references or include a statement that LEAA has followed the Comptroller General's decision. LEAA had been acting in accord with the principles of the decision prior to February 10, 1978.

GAO states on page 18 that of a sample of 156 findings involving \$8,071,671 in questioned costs, LEAA program managers had allowed grantees to keep 99 percent. The report leaves the inference that the actions reviewed by GAO were improper, but presents no evidence that any of these findings were improperly cleared. GAO's finding does not consider the bases for clearance of findings which may be discovered during resolution of a finding. Audit resolution involves a negotiation process and provides an opportunity for grantees to submit additional support and documentation relative to the expenditures in question. Most questioned costs are not illegal, but are only unsupported at the time of the audit. Through the clearance process, they can be appropriately cleared and justified without a dollar recovery.

The vast majority of audit findings in any Federal program is cleared without resort to collection action because funds have normally not been spent illegally. Very few cases of fraud have been documented during the ten years of the LEAA program.

GAO recommends that a coherent and comprehensive policy for achieving adequate audit coverage of all LEAA's grant recipients should be developed. The Department basically concurs with this recommendation, and LEAA is now reviewing draft policy concerning audit requirements. This draft policy is based upon existing legislation, and the applicable OMB Circulars A-102, A-110, and A-73. The requirements will be incorporated in M 7100 and M 4100. The draft policy provides for the more active agency role in assuring audit coverage recommended by GAO. These provisions include Criminal Justice Council (CJC) and entitlement development of audit plans, including sufficient detail to permit OAI to provide technical assistance to grantees making arrangements for audits and to track and review state, local, and other Federal audit efforts.

The Department has reservations about the implementability of the single audit concept. While we agree in principle that this methodology should be applied in auditing Federal programs at the state and local level, we are as concerned as other Federal agencies in being able to audit all programs with one guide, given the numerous unique legislative requirements established by Congress in Federal programs. This is an issue that OMB has been trying to resolve for several years and we are currently working with OMB.

GAO recommends that LEAA "Launch an all out effort to have all major grant recipients audited within the next 2 years in accordance with this policy". This recommendation as stated is ambiguous. It may be interpreted as directing either that OAI audit all major grant recipients during the next two years or that LEAA assure that audits meeting requirements be conducted. We construe GAO's intent to be the latter interpretation. If the audit requirements which we are developing are implemented, all recipients will be required to have a financial/compliance audit on an organization-wide basis within two years.

Pursuant to a legal opinion of our Office of General Counsel, we will also be attaching the following special condition to all 1980 formula grant awards for states which have not had an audit report issued since October 1, 1977.

"Grantee will submit to LEAA by December 31, 1979, an audit plan which will satisfy the requirements of Office of Management and Budget Circular A-102. Such plan will provide for a beginning date for any required audit no later than May 1, 1980 and the submission of a final audit report by July 30, 1980. Failure to comply with this condition is a substantial failure to comply with the provisions of Title I of the Omnibus Crime Control and Safe Streets Act, as amended, the regulations promulgated by the Administration, and the state plan and application, within the meaning of Section 509 of the Act or the corresponding section of any successor statute."

"The grantee is on notice that such failure could result in suspension or termination of funding."

"The 'LEAA Guide for Financial and Compliance Audits of State Planning Agencies' is available as a guide to auditors regarding LEAA policy on the scope of the audit necessary to comply with OMB Circular A-102 and the Omnibus Crime Control and Safe Streets Act, as amended."

We concur that program managers should be issued guidelines to use in resolving audit findings. LEAA has developed draft criteria specifying when questioned costs must be sustained, when they can be allowed, when legal review or other expert advice is necessary, and when program managers should cut off or delay funding until recipients correct the deficiencies identified by the auditors. LEAA's Audit Policy Working Group is assessing the adequacy of these criteria to identify gaps and develop recommendations in areas where additional guidance may be needed. Related tasks include developing recommendations for audit clearance procedures indicating in explicit terms the authority and responsibility of each office and developing recommendations for policy concerning award of new grants to grantees with uncleared audits.

We concur that a person or persons in program management should be held responsible for timely and proper resolution of findings. Current LEAA guidelines place such responsibility with the Office Head. We are considering two other steps relating to this recommendation: (1) devolution of responsibility for clearance of reports prepared by state and local audit agencies to SPAs with provisions made for program office intervention in exceptional circumstances and for clearance of specific types of findings which involve exercises of authority which cannot be delegated and (2) formal delegations of authority within each program office to fix audit resolution and clearance responsibilities at a management level lower than the program office head. The intent of each of these latter steps, would be to increase opportunity for administrative attention to be directed selectively toward difficult resolution and clearance issues.

We concur that an official independent of program management and auditing should be designated to monitor the substance of audit findings and the propriety of resolutions, and that this official should also mediate disputes between program managers and auditors over findings and their resolution, and decide on actions to be taken on findings not resolved within a six-month period.



Prior to receipt of the GAO draft report, LEAA had prepared a draft instruction to create an Audit Review Committee. The Committee, to be composed of the Comptroller, the General Counsel, and the Deputy Administrator for Administration, will have the following responsibilities: (1) ensure the resolution and clearance of all audit reports not cleared within six months; (2) make determinations whether actions taken by the cognizant program office to clear a referred report have been properly aggressive, (3) mediate differences between OAI and program offices concerning actions appropriate to clear the findings of a report; and (4) provide guidance for all subsequent actions arising from differences between OAI and program offices concerning the appropriate clearance of audit findings. Once certain technical details in the draft instructions have been addressed concerning logistical and scheduling supports for Committee functioning, the Administrator, LEAA, will establish this Committee. Following reorganization, another administrative officer will be designated as the chairman.

We partially concur with the recommendation that an independent official should be required to provide top management with quarterly reports showing the dispositions of audit findings, including the age and amounts of unresolved findings and results of the findings closed during the period.

The system for tracking audit findings, which is managed by OAI, provides to management on a monthly basis much of the information called for by this recommendation. OAI currently produces a monthly summary showing the total number of open audits by program office, the total amount of questioned costs for each month, and the total amount of refunds or adjustments sustained for each month. The amounts of questioned costs and refunds or adjustments sustained are also shown with a year-to-date total.

These data are currently being compiled manually by OAI. Once OAI's tracking system is computerized (now at the test data stage), the system will have the capability to report the aging of each report by cognizant program office, including the amount of questioned costs contained in each report. Furthermore, the new system will be able to produce detailed lists of audit findings contained in specific reports and show the amount of questioned costs, the disposition of those costs during resolution and clearance, and whether or not OAI considers the clearance action, if any, as satisfactory, on the basis of its post-review.

On the other hand, the only way that results of audit findings other than monetary findings can be determined definitively is through follow-up audits or on-site monitoring by program offices. These are not responsibilities which could readily be assigned to the Audit Review Committee. However, the data base in the audit tracking system should significantly contribute to planning of future audits.

We are currently implementing the recommendation to require auditors to track open audit findings on a manual basis, until all recommended improvements are made, the funds are recovered, the debt forgiven, or the finding is determined to be in error.

Since the beginning of January 1979, OAI staff has tracked each open audit report to resolution and clearance. Thus, currently, we can identify every open audit report in the agency and its status. The computerized tracking system which we are implementing will augment existing agency capabilities and thus support more intensive tracking. We believe the system design is compatible with the resolution and clearance recommendations in the GAO draft report.

We do not fully concur with the recommendation to require written decisions by program officials to justify not seeking collection of any amounts shown to be due by auditors' reports, and that such decisions should be reviewed for legality and endorsed by a legal official. If this recommendation is interpreted as a call that all decisions not to collect should be reviewed and endorsed by a legal official, this recommendation appears to contradict another recommendation in the GAO draft report which calls for development of guidelines concerning when legal review is necessary.

LEAA guidelines currently require program offices to document their decisions regarding the clearance of audit findings and require post-review of audit clearances. The guidance for clearance of audit findings which is being developed will establish bounds for discretion to be exercised by program offices. When we consider our steps to establish policy together with our steps to assure review of its implementation, including formation of the Audit Review Committee, we believe that we will have responded to the intent of this recommendation.

We concur with the recommendation that LEAA procedures should be expanded to provide accounting controls over collection of audit-related refunds by providing that auditors inform the comptroller of all questioned costs and by directing that program managers follow agency procedures to provide the comptroller with the amounts of all questioned costs to be collected or allowed. Prior to the receipt of this report, LEAA had begun revising its instruction on collection of claims to institute the necessary controls. Once LEAA has consolidated its directives affecting clearance of audit reports, we believe that program offices will keep the comptroller more effectively informed of amounts resolved, waived, excused, or to be collected.

We concur with the recommendation to require program managers and auditors to systematically review the adequacy of SPA procedures and practices for issuing audit reports and resolving audit findings.

Prior to the receipt of this report, LEAA began revising the financial guide and the formula grant application guidelines to clearly establish LEAA audit requirements. LEAA is also developing internal procedures to assure program office review, with OAI technical assistance, of the adequacy of relevant SPA (CJC) policies, procedures, and practices. These steps are critical, we believe, to the effort being made to place LEAA in a better position to rely on audits performed by non-Federal auditors.

We appreciate the opportunity to comment on the draft report. Should you desire any additional information, please feel free to contact us.

Sincerely,



Kevin D. Rooney  
Assistant Attorney General  
for Administration

(911900)



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