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

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12-0182  
AUG 17 1971

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B-130515

*CI TR*

Dear Mr. Perkins:

Pursuant to your request of May 13, 1971, and subsequent discussions with you, we are enclosing a report on our financial audit of the Office of Economic Opportunity grant to the Tech Foundation of the West Virginia Institute of Technology to operate a legal services program in the Appalachian region of West Virginia and Kentucky. The foundation delegated the operation of the program to the Appalachian Research and Defense Fund, Inc., a West Virginia nonprofit corporation. 957 D.02006

Our audit, on a test basis, of the Appalachian Fund's financial transactions and internal controls for the period August 1, 1970, to April 30, 1971, revealed some deviations from Office of Economic Opportunity policies and instructions. The deviations noted included the making of payroll disbursements before the preparation of the supporting documents, incomplete personnel records, travel expenditures not adequately documented, nonadherence to requirements relating to actual subsistence expenses of travelers, smaller non-Federal contributions to program expenditures than required, and retention of grant funds in excess of needs.

We brought these deviations to the attention of Appalachian Fund officials who took or were planning to take corrective action.

The Appalachian Fund's accounting records for the legal services program are not designed to accumulate costs by each legal case handled, and summary records were not maintained to show all legal cases handled. Consequently, it was not possible to obtain a listing of all cases under the program without the expenditure of considerable audit time nor could we obtain a breakdown of the expenses involved in each case.

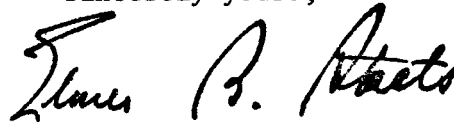
We were able, however, to obtain examples of major program cases and activities undertaken by the Appalachian Fund's Charleston office and a listing of the program's expenditures for the period August 1, 1970, to April 30, 1971. This information is provided in appendixes I and II of the enclosed report.

As previously agreed with you, we have initiated an evaluation of the results of the operations of the legal services program assisted by this grant and will report to you separately on the results of our evaluation.

B-130515

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 by you concerning the contents of the report.

Sincerely yours,



Comptroller General  
of the United States

Enclosures - 3

*CTA*  
- The Honorable Carl D. Perkins  
House of Representatives

ENCLOSURE



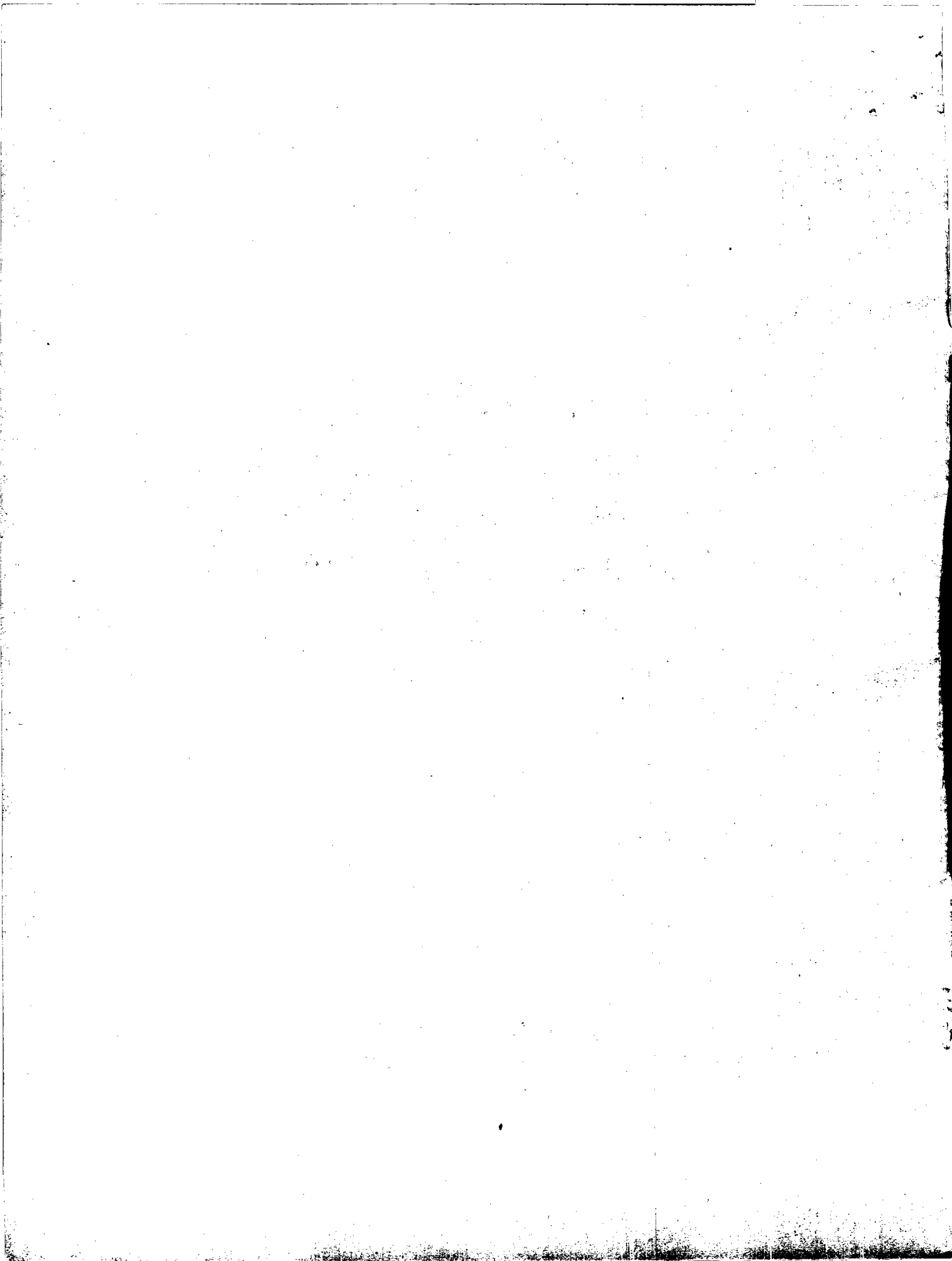
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Audit Of The Office Of  
Economic Opportunity Grant  
To The Tech Foundation Of  
The West Virginia Institute  
Of Technology B-130515

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**BY THE COMPTROLLER GENERAL  
OF THE UNITED STATES**

AUG. 17, 1971



GENERAL ACCOUNTING OFFICE AUDIT OF  
THE OFFICE OF ECONOMIC OPPORTUNITY GRANT TO  
THE TECH FOUNDATION OF THE WEST VIRGINIA  
INSTITUTE OF TECHNOLOGY

INTRODUCTION

Pursuant to a congressional request dated May 13, 1971, we audited the records pertaining to a grant to the Tech Foundation of the West Virginia Institute of Technology for operation of a legal services program in the Appalachian region of West Virginia and Kentucky. The grant of \$476,101 was made under section 222 of the Economic Opportunity Act of 1964, as amended (42 U.S.C. 2809), by the Office of Economic Opportunity (OEO) for the period August 1, 1970, to October 31, 1971. The foundation delegated the operation of the legal services program to the Appalachian Research and Defense Fund, Inc., a West Virginia nonprofit corporation. The Appalachian Fund maintains law offices in Charleston, West Virginia, and Prestonsburg and Barboursville, Kentucky.

The audit was made during June 1971 at the Charleston, West Virginia, office of the Appalachian Fund and OEO headquarters in Washington, D.C., and was directed toward determining whether the grant funds were being expended in accordance with the financial conditions of the grant and with applicable OEO policies and instructions. The audit included obtaining information on the (1) legal cases handled under the program, (2) salary costs for some of the cases, and (3) program's expenditures.

We reviewed applicable legislation, OEO policies and instructions, and the grant agreement. We also interviewed officials of the foundation, the Appalachian Fund, and OEO.

Our audit of the records of the Appalachian Fund included a test of financial transactions for the period August 1, 1970, to April 30, 1971. Financial transactions tested amounted to about \$50,000 of the \$225,000 expended during the 9-month period ended April 30, 1971.

The scope of the audit reported on herein did not include an evaluation of the activities of the Appalachian Fund to determine whether they were being carried out in accordance with objectives of the authorizing legislation and with OEO policies. As requested, we presently are making this determination and plan to report separately on our findings.

Although the officials of OEO, the foundation, and the Appalachian Fund have not been given an opportunity to examine and comment formally on this report, the findings were discussed with representatives of the foundation and the Appalachian Fund.

The Appalachian Research and Defense Fund, Inc., was chartered under West Virginia law on December 29, 1969. Its declared purpose was to restore self-government to the people of the Appalachian Mountain area through the development and conservation of the area's resources for the common benefit of all the people. The purpose of the OEO grant was to:

1. Provide legal services on issues or matters of common concern to eligible individuals or groups of individuals in the designated service area.
2. Serve a bistate area.
3. Enhance existing legal services efforts in the area by research and litigation support.
4. Carry out education and training and disseminate information through professional journals and appropriate media.
5. Employ an interdisciplinary approach and draw on the resources of educational institutions to develop solutions to sophisticated legal problems.

OEO's grant to the foundation requires the grantee to arrange for an audit to be conducted by an independent accountant, the results of which are to be available before August 1971, to ensure that the accounting system and related internal controls are operating effectively, that adequate records are being maintained, and that general and

special grant controls are being complied with. The executive director of the foundation informed us in June 1971 that he was making arrangements to have the audit performed.

## FINDINGS

### AUDIT RESULTS

Our examination of financial transactions and internal controls revealed some deviations from OEO policies and instructions, which are discussed below.

#### Personnel matters

OEO instructions require grantees to maintain (1) time and attendance records to substantiate payroll costs, (2) complete personnel records, and (3) leave records for each employee showing balances available for annual, sick, and other types of leave.

Our review showed that the Appalachian Fund was paying its employees on a semimonthly basis but was requiring time and attendance records to be submitted on a monthly basis by the 10th day of the following month. As a result, payroll disbursements were made prior to the preparation of supporting time and attendance records.

An examination of the personnel folders of 18 employees employed by the Appalachian Fund during March and April 1971 showed that information required by OEO on prior salaries was not on file in the personnel folders for three employees, all attorneys, who were paid salaries in excess of \$5,000 annually. Prior salary information is needed to determine adherence to the OEO requirement that starting salaries of new employees paid over \$5,000 annually be limited to an increase of 20 percent over their prior salary or \$2,500, whichever is lower. The lack of information in the personnel folders was caused, in part, by the fact that the three attorneys had been employed by the Appalachian Fund prior to the award of the OEO grant.

We discussed the salaries paid to the three attorneys with an OEO official who informed us that the salaries paid were not excessive considering the skills of the attorneys and the location of employment.

Appalachian Fund records did not show current balances of employees' annual, sick, and other types of leave because



the records had not been posted after April 15, 1971. In addition, five employees had used up to 6 days of unearned leave without written authorizations for advances of such leave.

Appalachian Fund officials stated that, under a recently implemented revised payroll procedure, paychecks would be issued only after time and attendance records had been prepared and that forms were being designed to adequately document personnel actions and to control leave.

### Travel expenses

OEO instructions require full documentation of all travel expenses and adherence by the grantees to the "Standardized Government Travel Regulations."

Our examination of travel expenditures of about \$7,600-- selected from the total travel expenditures of \$17,000 for the period August 1, 1970, to April 30, 1971--showed that payments for travel were not authorized in advance as required and that travel expense claims paid did not contain all the supporting information required, such as purpose of the travel, details of points visited and of expenditures, and departure and arrival times. This situation was caused, in part, by the fact that reimbursements by the Appalachian Fund for travel expenses were not made on the basis of certain travel authorization and expense forms prescribed by OEO.

We also found that the Appalachian Fund had not followed certain requirements of the regulations relating to the authorization and approval for travel to be claimed on an actual subsistence expense basis. The regulations permit subsistence expenses to be paid on the basis of a per diem rate of up to \$25 or actual subsistence expenses of up to \$40 for domestic travel. The regulations require, however, that travel on an actual subsistence expense basis be restricted to those travel assignments where subsistence costs are unusually high and that conditions be prescribed under which reimbursements may be authorized or approved for actual subsistence expenses of a traveler.

The Appalachian Fund made travel reimbursements to all travelers on the basis of their actual subsistence expenses and had not prescribed conditions restricting travel on an actual subsistence expense basis as required by the regulations. Because the travel claims did not show the departure and arrival times which affected per diem computations, we were unable to determine whether reimbursements for actual subsistence expenses exceeded the amount allowable under the regulations on a per diem basis of \$25.

Not all of the \$7,600 in travel costs examined by us represented reimbursements made for subsistence costs. Travel costs of about \$3,500 were incurred for both the transportation and subsistence expenses of persons being trained by the Appalachian Fund for handling black lung problems in their local communities. The subsistence expenses of these persons were paid on the basis of \$4 a night for lodging and the actual cost of meals. Of the remaining \$4,100, about \$600 was for reimbursing employees for their subsistence costs and the balance was for transportation costs.

Appalachian Fund officials stated that they were not aware of the OEO requirement that the "Standardized Government Travel Regulations" be followed. They stated that they would adopt the regulations' per diem rate and the proper forms.

#### Non-Federal contributions

OEO requires grantees to provide a specified percentage of total project costs either in cash or in-kind contributions and to maintain this percentage relationship between expenditures of non-Federal contributions and Federal grant funds during the entire period of the grant. The rate of non-Federal contributions for the foundation's legal services program is 20 percent of the program costs.

The records show that, to April 30, 1971, Federal funds expended accounted for 87 percent of the Appalachian Fund program expenditures. Appalachian Fund officials stated that they did not realize that the 80- to 20-percent expenditure ratio was to be maintained during the entire period of the grant. They noted, however, that the Appalachian

Fund had received sufficient non-Federal contributions to April 30, 1971, to satisfy the 20-percent matching requirement of the grant. Appalachian Fund officials stated also that they planned to sponsor educational programs with these funds during the remaining period of the grant.

### Cash position

Our review showed that the Appalachian Fund's cash balances of OEO grant funds were in excess of program needs. From September 1970, when the Appalachian Fund first received grant funds through April 1971, ending monthly cash balances averaged \$56,410 and monthly program expenditures averaged \$22,930. At times, cash balances of grant funds amounted to as much as \$86,500.

By maintaining cash balances of Federal grant funds in an amount not in excess of current needs of a grantee, interest costs to the Government are minimized. During a period that a grantee maintains cash balances in excess of needs, the excess funds, if available to the Government, could be used in meeting the Government's obligations or in reducing its need for borrowings, which would result in reduced interest costs.

Appalachian Fund officials stated they would estimate the Appalachian Fund's cash needs on a monthly basis and would request funds from the foundation accordingly. Foundation officials stated that they would draw funds only on the basis of requests from the Appalachian Fund.

OTHER MATTERS OF PARTICULAR INTEREST

With regard to the request for (1) a list of cases involving the expenditure of funds, (2) a complete breakdown of all expenses in each case handled under the OEO-financed program up to the time of our audit, and (3) information on the program's expenditures, our audit showed that the accounting records of the Appalachian Fund were not designed to accumulate costs by each legal case handled and that OEO did not require such accounting. In addition, the Appalachian Fund did not maintain summary records showing all legal cases in which it had been involved. Consequently, it was not possible to obtain a listing of all cases handled by the Appalachian Fund without the expenditure of considerable audit time nor could we obtain a breakdown of the expenses involved in each case.

The director of the Appalachian Fund estimated the number and type of cases handled by the Appalachian Fund between August 1, 1970, and June 9, 1971, as follows:

<u>Type</u>	<u>Number of cases</u>
Welfare	300
Environment	267
Health	150
Consumer	75
Housing	50
Juvenile	15
Criminal	10
Domestic	8
Other	<u>125</u>
Total	<u>1,000</u>

With regard to the 10 criminal cases listed above, the director of the Appalachian Fund stated that, prior to the award of the OEO grant in August 1970 and for a short while thereafter, local court officials assigned criminal cases to the Appalachian Fund's attorneys for representation. He stated also (1) that criminal cases were handled by the Appalachian Fund's attorneys until the Appalachian Fund convinced court officials that conditions surrounding the

award of the grant precluded its attorneys from handling such cases without approval of the Director of OEO and (2) that the Appalachian Fund's attorneys were no longer handling criminal cases.

Quarterly narrative reports submitted by the Appalachian Fund to OEO on its Charleston office contain a summary of the program's accomplishments and a brief description of major program cases and activities undertaken by attorneys in that office. Estimates of the time that the attorneys spent on each case are also shown in the reports.

At the time of our review, the quarterly reports submitted to OEO did not contain information on the accomplishments, cases, and activities undertaken by the Appalachian Fund's Kentucky law offices because this information had not been submitted by these offices to the Appalachian Fund's Charleston office. The director of the Appalachian Fund informed us that he would have the Kentucky offices submit this information for inclusion in future quarterly reports.

Appendix I contains examples of major program cases and activities of the Charleston office of the Appalachian Fund as reported in the quarterly reports for the period August 1, 1970, to April 30, 1971, and our estimate of the salary costs for the assigned attorneys. The Appalachian Fund indirect costs were not allocated by us to the cases and activities because the program cases and activities contained in the quarterly narrative reports were incomplete.

Appendix II is a listing of the Appalachian Fund's approved grant budget and the cumulative expenditures through April 30, 1971.

Appendix III is an analysis of the Appalachian Fund's Federal expenditures for the period August 1, 1970, to April 30, 1971.

APPENDIXES

## APPENDIX I

APPALACHIAN RESEARCH AND DEFENSE FUND  
LISTING OF APPROVED GRANT BUDGET  
AND EXPENDITURES INCURRED  
THROUGH APRIL 30, 1971

Expense category	Approved grant budget 8-1-70 to 10-31-71		Expenditures of 8-1-70 to 4-30-71	
	Federal funds	Non-Federal funds	Federal funds	Non-Federal funds
<b>SALARIES AND WAGES:</b>				
Director	\$ 23,125		\$ 18,229	
Administrative director	15,625		10,250	
Senior attorneys	63,750		26,042	
Staff attorneys	75,000		37,965	
Law students	8,750		-	
Law professors	3,750		-	
Community aides	41,250		667	
Secretaries	52,200		22,676	
Business manager	10,000		5,400	
<b>FRINGE BENEFITS</b>	23,476		10,998	
<b>CONSULTANT AND CONTRACT SERVICES</b>	9,200		533	
<b>TRAVEL:</b>				
Local	22,000		14,600	
Conferences and out of state	5,000		1,934	
Board	1,250		463	
<b>SPACE COSTS AND RENTALS:</b>				
Office rent	12,500		7,572	
Renovations	2,500		2,819 <sup>a</sup>	
Utilities	5,850		765	
Insurance	1,250		89	
<b>POSTAGE AND OFFICE SUPPLIES</b>	10,625		4,510	
<b>RENTAL, LEASE, AND PURCHASE OF EQUIPMENT:</b>				
Office equipment	17,000		2,533	
Xerox and supplies	3,750		2,415	
<b>OTHER COSTS:</b>				
Professional liability in- surance	1,250		85	
Telephone	15,000		17,392 <sup>a</sup>	
Library and subscription	12,500		5,467	
Filing fees and court costs	9,400		2,376	
Licenses, dues, notary seal	600		66	
Audit costs	1,500		-	
Administrative costs of sponsor	28,000		-	
<b>NON-FEDERAL SHARE:</b>				
Volunteer attorneys		\$ 36,800		\$ 2,787
Volunteer law faculty		16,000		-
Volunteer professional counsel		16,000		3,628
Volunteer law students		5,000		2,752
Summer students		6,000		515
Lay volunteers		1,600		5,192
Donation--W. Va. University space		10,000		-
Donation--space by churches		5,000		-
Donation--law books and materials		3,500		5,459
Radio, TV, newspaper, educa- tion and advertisement service		3,000		-
Donation--equipment		6,000		3,006
Cash donation		11,000		5,474
<b>Total</b>		<u>\$476,101</u>		<u>\$28,813</u>
<b>Total Federal and non- Federal expenditures</b>		<u>\$596,001</u>		<u>\$224,659</u>

<sup>a</sup> Although the amount of telephone and renovation expenditures as of April 30, 1971, exceeded the amount budgeted by \$2,392 and \$319, respectively, OEO instructions allow grantees to switch funds without OEO approval within these cost categories if, among other things, program objectives are not adversely affected.

APPENDIX II

APPALACHIAN RESEARCH AND DEFENSE FUND

EXAMPLES OF MAJOR CASES AND ACTIVITIES REPORTED BY THE

CHARLESTON OFFICE

AND ESTIMATED ATTORNEY SALARY COSTS

FOR THE PERIOD AUGUST 1, 1970, TO APRIL 30, 1971

	<u>Estimated costs for attorneys' time</u>
<b>COAL MINE ISSUES:</b>	
Black Lung cases and research	\$5,958
Consolidated Coal et al. v. Association of Disabled Miners & Widows, Inc., and Allied Chemical v. Association of Disabled Miners & Widows (alleged picketing of mines)	2,043
Pension and Black Lung applications of miners and widows	1,268
Blankenship v. Boyle (alleged mismanagement of pension trust funds)	300
<b>ENVIRONMENTAL ISSUES:</b>	
Council Cheat River Conservancy, Inc., concerning Rowlesburg Reservoir Project of the U.S. Corps of Engineers	2,458
Hagedorn v. Union Carbide (alleged air pollution)	1,472
Cabin Creek Clean Water Association v. Carbon Fuel Products (alleged pollution of Cabin Creek)	1,412
Hutton v. Union Carbide and Mason-Dixon Tank Lines, Inc. (hauling dangerous materials on highways)	751
Committee to Save Laurel Run v. Latimer	480
Miller v. C & O Railroad (alleged violation of 1899 Rivers and Harbors Act)	270
<b>EDUCATION ISSUES:</b>	
Study of 1-room school problems in McDowell County	637
Deweese v. Arvon (high school dress code)	540
Hunt v. Board of Education (counsel for low-income high school students who seek the right to voluntary unsupervised prayer in the public schools)	300
<b>CIVIL RIGHTS OF LOW-INCOME AND MINORITY GROUPS:</b>	
Individual and group representation (low-income persons having divorces, bankruptcies, landlord disputes, etc.)	3,365
Triangle Improvement Council v. Ritchie (highway relocation)	901
Human Rights Commission v. Rundle (discrimination against Blacks by private clubs)	601
Patterson v. Warner (constitutionality of bond requirement for court appeal)	480
Powers v. Flowers (reinstatement of welfare benefits)	240



ANALYSIS OF  
 APPALACHIAN RESEARCH AND DEFENSE FUND  
 FEDERAL EXPENDITURES FOR THE PERIOD  
 AUGUST 1, 1970, TO APRIL 30, 1971

	Expen- ditures through <u>4-30-71</u>	Percent of total expen- ditures <u>          </u>
<b>EXPENSE CATEGORY:</b>		
Salaries and wages	\$132,227	67.52
Consultant and con- tract services	533	.27
Travel	16,997	8.68
Space costs and rent- als	11,245	5.74
Postage and office supplies	4,510	2.30
Rental, lease, and purchase of equip- ment	4,948	2.53
<b>OTHER COSTS:</b>		
Professional liabil- ity insurance	\$ 85	.04
Telephone	17,392	8.88
Library and subscrip- tions	5,467	2.79
Filing fees and court costs	2,376	1.21
Licenses, dues, notary seal	<u>66</u>	<u>.04</u>
Total other costs	<u>25,386</u>	<u>12.96</u>
<b>TOTAL</b>	<u>\$195,846</u>	<u>100.00</u>

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