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REPORT OF THE COMPTROLLER GENERAL OF THE UNITED STATES
ON THE ADMINISTRATION OF THE FEDERAL BUREAU OF INVESTIGATION
AND THE DEPARTMENT OF JUSTICE
BY THE FEDERAL BUREAU OF INVESTIGATION, DEPARTMENT OF JUSTICE, 1970

RELEASED

74-0485

Review Of The Law Enforcement Assistance Administration's Audit Of The Iowa Crime Commission

Department of Justice

BY THE COMPTROLLER GENERAL
OF THE UNITED STATES

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OCT. 16, 1970



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

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The Honorable Edward Mezvinsky
House of Representatives

Dear Mr. Mezvinsky:

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Your letter of May 10, 1973, requested that we review the activities of the Iowa Crime Commission because of your concern with the audit of the Commission by the Law Enforcement Assistance Administration (LEAA), Department of Justice. The LEAA audit report, dated April 11, 1973, questioned the propriety of many Commission expenditures.

As agreed with your office, we assessed the adequacy of LEAA's audit and followed up on several other matters of interest to you regarding the Commission's operations.

LEAA's audit was generally sufficient in scope to adequately assess the operations of the Commission and its subgrantees, and most of the conclusions and recommendations in the report were supported by the facts. The Commission generally was responsive to the audit findings and took steps to correct problems identified by the audit.

Certain LEAA audit reporting procedures may have caused some confusion as to the amount of expenditures considered illegal or improper by LEAA. When LEAA suspects that certain management practices may not be in accordance with Federal criteria, it requires the State to provide additional information to establish that Federal funds were spent properly. LEAA usually classifies such expenditures as questionable. States usually are able to provide information proving that the expenditures were proper and therefore generally do not have to refund such moneys to the Federal Government. LEAA classifies Federal funds as unallowable and refundable when it has specific evidence that funds were spent illegally or improperly. People not familiar with LEAA's distinction between questionable and unallowable expenditures may assume

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that all funds mentioned in the audit report were spent illegally or improperly and should be refunded to the Federal Government.

LEAA's policy of providing States with draft audit reports so they can comment on the findings and conclusions also caused confusion. On the basis of the State's response, corrective actions taken by the State, and LEAA's internal review of the draft report, certain findings and conclusions in the draft report may be dropped from the final report. The Governor's office made the findings in LEAA's draft audit report public before LEAA had considered the State's response to those findings in preparing its final report. In its final report LEAA did not question the propriety of as many expenditures as it did in its draft report because the State had provided information to prove certain expenditures were valid or had taken action to correct problems. The differences between LEAA's draft and final reports were justified.

Certain expenditures by the Commission, questioned in both the draft and final reports, should not have been questioned. LEAA's final report stated that expenditures of \$618,000 of Federal funds were questionable and that another \$33,000 should be returned to the Federal Government because it was spent for unallowable purposes. In questioning the expenditure of \$456,000 of the \$618,000, however, the auditors either misinterpreted LEAA guidelines or applied LEAA guidelines issued after the money was spent.

Moreover, we do not believe LEAA correctly interpreted the Intergovernmental Cooperation Act of 1968 (42 U.S.C. 4201) when it required two local units of government (subgrantees) to return to the Federal Government \$25,990 in interest earned on Federal funds received from the Commission for specific projects. We do not believe that local governments are required by the act to return interest earned on such funds. We are advising the Department of Justice by separate letter of our interpretation of the act and our recommendation that LEAA recognize that local units of government are not required to return to the Federal Government interest earned on Federal funds received through State agencies.

Under Federal regulations, however, earning interest on Federal grant money should be minimized through use of the letter-of-credit method of financing. States and their subgrantees should request grant funds only when needed; therefore there should be no opportunity to earn interest on such funds.

Our review of other matters you requested us to examine showed that:

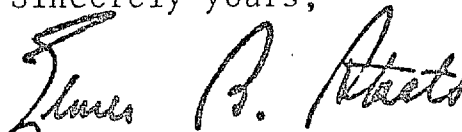
- Iowa has no competitive bid law that must be applied when purchasing equipment, but the Commission developed its own competitive bid procedure and improved it further as a result of the LEAA audit.
- Most newspaper assertions alleging misuse of LEAA moneys by the Commission were not substantiated by the LEAA auditors.
- No duplicate reimbursements were made for vehicle operating expenses in selected projects operated by subgrantees in Polk County, Iowa.

Details of the results of our work are included in the appendix.

We have discussed our findings and conclusions with LEAA and Commission officials but, as you requested, have not provided them with copies of the draft report or obtained written comments from them.

We trust the above information is responsive to your inquiry and will assist you. We do not plan to distribute this report further unless you agree or publicly announce its contents.

Sincerely yours,



Comptroller General
of the United States

REVIEW OF LEAA's AUDIT
OF THE IOWA CRIME COMMISSION

ADEQUACY OF THE AUDIT

The audit was generally sufficient in scope to adequately assess the operations of the Commission and its subgrantees. The facts developed by LEAA during its audit adequately supported all but one conclusion in the draft and final reports. We did additional fieldwork to validate LEAA's conclusion that the Commission had adequate control over its payroll operations because we were not satisfied that LEAA had done sufficient work to justify that conclusion. Our work substantiated the LEAA conclusion.

The audit, which began April 3, 1972, and ended June 30, 1972, covered the operations of the Commission from its inception in July 1968 to March 31, 1972. Three LEAA auditors, assisted at times by as many as 4 Iowa State auditors, spent 426 man-days on the audit. The LEAA audit guidelines required that five areas of the Commission's operations be reviewed: (1) general management, (2) planning, (3) subgrant administration, (4) financial management, and (5) Commission audits of subgrantees. The audit working papers showed that the auditors satisfactorily reviewed each of these areas.

The LEAA auditors also reviewed the operations of 58, or about 9 percent, of the Commission's 670 subgrantees as of March 31, 1972. LEAA audit officials advised us that this percent was greater than the percentage of subgrantees normally reviewed in State audits because of the assistance provided by the Iowa State auditors.

LEAA's audit was one of 26 State audits LEAA had completed as of March 1973. Many of LEAA's findings and conclusions regarding the adequacy of the operation of the Commission were similar to its findings and conclusions on the adequacy of the operation of other States' crime commissions.

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CORRECTIVE MEASURES TAKEN BY THE COMMISSION

As a result of the audit, the Commission has taken actions to improve its own operations and the operations of its subgrantees.

In response to LEAA's criticism that its planning process was fragmented and did not adequately take into account local needs, the Commission established eight area crime commissions to implement and administer local planning procedures. In response to LEAA's criticism that the Commission did not effectively define organizational responsibilities and did not have an effective internal management control system, the Commission developed an Internal Procedures Manual documenting its functions, policies, and procedures. Also, as a result of the audit, the Commission improved its contracting procedures.

DIFFERENCES BETWEEN THE DRAFT AND FINAL AUDIT REPORTS

LEAA audit reports challenge expenditures which appear questionable or unallowable and provide management with other information to improve its programs. Questionable expenditures are not necessarily illegal or improper but are expenditures for which the State should provide additional information to prove that the money was spent legally or properly. An unallowable expenditure means that LEAA has developed evidence to show that the expenditure was illegal or improper and that the money should be refunded to the Federal Government.

At the time of the Commission audit, LEAA reporting procedures provided for issuing a draft report to the State for its evaluation and comment. The State was given the opportunity to prove that each questionable or unallowable expenditure was legal and proper.

After LEAA officials review the State's response to the draft report, certain findings, conclusions, and recommendations in the draft report may be removed from or changed in the final report. After the final report is issued, the State can provide LEAA further information to resolve outstanding questionable or unallowable expenditures.

Differences in the amounts of unallowable and questionable expenditures between the draft and final audit reports follow.

	<u>Unallowable</u>	<u>Questionable</u>	<u>Total</u>
Draft report	\$52,847	\$1,060,217	\$1,113,064
Final report	<u>32,937</u>	<u>618,246</u>	<u>651,183</u>
Difference	\$19,910	\$ 414,971	\$ 461,881

On the basis of information provided by Iowa to prove that the \$651,183 was spent legally and properly, LEAA determined that \$78,783 should be refunded to the Federal Government--\$31,415 which LEAA had initially determined to be unallowable and \$47,368 in questionable expenditures which the State could not prove were legal or proper and which therefore became unallowable. As of September 13, 1973, LEAA had collected \$33,113 and was collecting the remainder.

Reasons for differences

The difference of \$19,910 in unallowable expenditures represents that portion of interest earned by two subgrantees which was returned to LEAA.

The difference of \$441,971 in questionable expenditures represents the following changes between the draft and final audit report.

- The deletion of \$20,000 in Federal funds disbursed by the Commission for three questionable subgrants. Besides questioning the \$20,000, the draft report also questioned \$39,590 awarded by the Commission for the same three subgrants. The final report questioned only the \$39,590.
- The deletion of \$421,971 awarded by the Commission for 69 subgrants under a program area titled "Related Law Enforcement Equipment in the 1971 Comprehensive State Plan." The auditors questioned the use of these funds because the program neither incorporated innovative and advanced techniques nor encouraged cooperation between local governments, which were two purposes of the 1968 Omnibus Crime Control and

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Safe Streets Act. However, the act does not prohibit use of Federal funds for law enforcement equipment and the LEAA regional office approved the 1971 State Plan. Thus, there was no apparent reason for questioning the allowability of such expenditures. In responding to the draft, the State noted that the 1973 State Plan did not include funds for the program. LEAA considered the State corrective action adequate and removed the questionable expenditure from the final report.

The LEAA Office of Audit is considering revised procedures to eliminate issuing draft reports to States for evaluation and comment. Rather, statements of conditions summarizing audit findings would be submitted to States during the audit and discussed at an exit conference. A representative from LEAA's Office of General Counsel would review the statements and participate in the exit conference. LEAA Office of Audit officials believe the new procedure, if implemented, should eliminate any confusion caused by changes between draft and final reports and should streamline the reporting process.

LEAA SHOULD NOT HAVE QUESTIONED OR DISALLOWED CERTAIN EXPENDITURES

LEAA should not have questioned expenditures of \$455,743 and should not have disallowed expenditures of \$25,990. In questioning certain expenditures LEAA auditors either misinterpreted LEAA program guidelines or applied LEAA guidelines issued after the money was spent. In disallowing certain expenditures LEAA incorrectly interpreted a section of the Intergovernmental Cooperation Act of 1968.

Misinterpretation of guidelines

LEAA auditors questioned the use of \$385,924 in planning funds disbursed by the Commission to local units of government to provide input for the 1969, 1970, and 1971 State plans. The auditors stated that the Commission did not require or obtain "formal plans" from the local units of government and that therefore the planning efforts of the local government units were not sufficient to justify the expenditure. The auditors said that formal plans should include compilations of law enforcement problems, needs,

and priorities and should suggest approaches to improve the criminal justice system. The auditors stated that local governments should prepare such plans so the Commission could have useful input to its planning process from the local level.

When the planning funds in question were disbursed, LEAA guidelines did not require States to obtain formal plans from local governments. In fact, the LEAA guidelines did not specifically require that planning funds be used only for planning. As a result, questioning the use of \$385,924 in planning funds did not appear justified.

LEAA Office of Audit officials stated that the audit finding was valid because the State was receiving only limited planning input from local units of government. They agreed, however, that specific expenditures should not have been tied to the audit finding and classified as questionable.

Retroactive application of guidelines

The auditors questioned expenditures of \$69,819 for consultant services because there was no evidence that the contracts had been submitted to LEAA for approval. When the contracts were awarded before May 1969, LEAA guidelines did not require LEAA approval of proposed contracts for consultant services. Not until December 1969 did LEAA revise its procedures to require such approval. LEAA auditors therefore had retroactively applied revised LEAA guidelines in questioning the \$69,819.

LEAA Office of Audit officials believed that State Planning Agency Directive Memorandums Number 10 (Feb. 28, 1969) and Number 11 (Mar. 28, 1969) alerted the States to the pending revisions requiring LEAA approval of proposed contracts for consultant services. Memorandum Number 10, however, transmitted simplified guidance for the preparation of comprehensive law enforcement plans for fiscal year 1969 and did not discuss approval of proposed contracts for consultant services. Memorandum Number 11 transmitted a draft Financial Guide for Fiscal Administration of Planning and Action Grants, which discussed the need for LEAA approval of such contracts. LEAA, however, cautioned the States that the draft guide was not final and that substantial revisions could be expected. The States could not have been expected

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to change their operations on the basis of draft guidelines subject to revision.

Incorrect interpretation of law

The LEAA auditors found that two subgrantees had earned \$25,990 in interest on Federal funds awarded by LEAA to the Iowa Crime Commission to be advanced to local subgrantees. Scott County earned \$10,219 in interest, and the Central Iowa Regional Crime Commission earned \$15,771 in interest.

LEAA noted that the Iowa Crime Commission's failure to exercise prudent fiscal management of Federal grant-in-aid funds resulted in a violation of the letter-of-credit method of financing Federal grant-in-aid programs.¹ The auditors therefore recommended that the interest earned by these subgrantees be refunded.

The State's response on February 28, 1973, to LEAA's draft report noted that on September 29, 1972, \$19,910 of the interest earned had been returned to LEAA. The remaining \$6,080 was used by the Scott County Crime Commission, with the approval of the State Crime Commission on January 18, 1972, to assist in developing the county crime commission's plans.

The State explained that its decision to refund the \$19,909 and keep the \$6,080 was based on its interpretation of Office of Management and Budget Circular A-102, dated October 19, 1971, and paragraph 3 of attachment E to that circular, dated January 25, 1972, which the State believed required local governments to return to the Federal Government interest earned on advances of grant-in-aid funds. The State noted that it received Circular A-102 in March 1972 and considered it effective upon receipt. Since \$6,080 of the interest earned had been committed before the circular was received, the State did not believe it was necessary to refund the money to LEAA.

¹The letter-of-credit method of disbursing Federal funds is to insure that States and local governments do not receive Federal funds in advance of need, thereby preventing excessive cash balances which can be banked and earn interest.

Paragraph 3 of attachment E does not deal with interest earned by local governments on Federal funds received through a State via a subgrant (as in the case of LEAA funds). Rather, it requires that local units of government return interest earned on Federal funds provided directly to them by the Federal Government.

We do not believe that LEAA should have required the subgrantees to return their interest earned on Federal funds advanced to them by the Iowa Crime Commission. Section 203 of the Intergovernmental Cooperation Act of 1968 exempts States from accountability for interest earned on grant-in-aid funds received by them and makes no differentiation between grants which the States will disburse themselves and grants involving funds which will be subgranted by the States. Moreover, we found nothing in the legislative history of section 203 or in subsequent hearings, which makes such a differentiation. We believe, therefore, that local units of government should be granted the same rights as States regarding interest earned on Federal grant-in-aid funds provided to them by State governments.

Accordingly, LEAA should revise its auditing procedures to recognize that local units of government should not be held accountable for such interest.

The Commission has taken action to improve its management of funds. The Commission now maintains a 1-day cash balance on hand which is below the 1-week cash balance allowed under LEAA instructions. Subgrantees now submit to the Commission a request for funds on a monthly basis for ongoing projects and on an as-needed basis for equipment purchases or other one-time costs.

ADDITIONAL MATTERS

Use of competitive bids for equipment purchases

LEAA auditors noted that six subgrantees had purchased equipment using questionable procurement practices. The audit report stated that "local units of government did not adhere to prudent/practical procurement and pricing procedures which would have aided the subgrantee[s] in obtaining the most favorable price and quality for their funds." The

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auditors questioned procurement practices because (1) Iowa did not have a competitive bid law or procurement regulations applicable State-wide and (2) the Commission had not issued sufficient procurement guidelines.

Until April 30, 1973, LEAA guidelines did not provide for the use of competitive bid procedures in States where none existed. However, the Commission issued supplements to its Administrative and Planning Guide in late 1971 and early 1972 detailing procurement procedures, including competitive bidding, for the purchase of "special equipment in excess of \$2,500." Acceptance of the lowest bid by subgrantees is not required, but the Commission limits its procurement funding--which includes LEAA funds--to 75 percent of the lowest bona fide bid. In response to the LEAA final audit report, the Commission further revised its procurement procedures to include competitive bidding requirements for all supplies, equipment, and contract services. These procedures provide for adequate procurement practices.

Des Moines Register and Tribune articles

The Des Moines Register and Tribune newspaper ran a series of five articles in early 1972 alleging misuse of LEAA moneys by the Commission. LEAA, as part of its audit, reviewed 38 assertions in the articles and the Commission's responses to determine the validity of the assertions. If LEAA substantiated certain assertions, they were to be included in its audit report.

We reviewed LEAA's efforts to substantiate the assertions. Five of the 38 assertions were substantiated and should have been included in the audit report; only 3, however, were included--2 dealing with interest earned on unused Federal funds and 1 regarding the lack of competitive bidding when purchasing equipment. Two other assertions, although substantiated by LEAA, were not included in the report. They involved the nonuse of a \$12,000 mobile crime lab for crime lab purposes and the purchase of \$1,487 in riot equipment for a town which previously had experienced no riots. LEAA Office of Audit officials could not explain why these two assertions were not included.

Of the remaining 33 assertions, LEAA auditors determined, and we substantiated, that

- 16 were not materially correct or were lacking in other pertinent information,
- 2 involved matters not under the Commission's jurisdiction, and
- 15 were no longer of material value because of the small amount of funds involved or because the Commission had taken corrective action.

We reviewed other Des Moines Register and Tribune articles concerning the Commission's use of crime funds. Two articles dealt with Iowa's computerized Traffic Records and Criminal Justice Information System (TRACIS).

The first TRACIS article questioned a reduction in a maximum daily rate by a development contractor with no corresponding reduction in the overall contract price. The maximum daily rate was reduced to reflect overhead rate reductions resulting from organizational changes in the company. The total contract price was a budgeted ceiling for the performance of various tasks. According to TRACIS and contractor personnel, the rate reduction allowed the contractor to do additional work within the budgeted ceiling. They advised us that this type of contracting practice is common to development projects. However, they had nothing in writing to show that additional work was done as a result of the rate reduction.

The second TRACIS article and two other newspaper articles concerned radio communications equipment and questioned the Commission's funding of low-band equipment when it had been advised such equipment would be obsolete.

On June 29, 1971, a Collins radio report recommended the use of high-band radio equipment for the Iowa Police Radio System, primarily so the system could cope with the

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expected growth of TRACIS.¹ The report also noted that low-band equipment for all police communication systems in the State would become obsolete because of changing atmospheric conditions which would adversely affect voice communication on low-band frequencies. The State accepted the June 1971 Collins recommendation and began immediately to plan for the conversion of its system to high-band equipment.

The Iowa Police Radio System provides dispatch service to the Iowa Highway Patrol and is a source of information to all other law enforcement agencies in the State. Local Iowa law enforcement agencies' communication systems, which usually use low-band equipment, do not have to tie into the Iowa Police Radio System, although it is advantageous to do so. If local systems are to be compatible with the State's system so they can transmit and receive messages through it, they will have to convert to high-band equipment.

The Commission was concerned that local law enforcement agencies may not be able to use the State's communication system and that their systems may become obsolete. It therefore decided on August 8, 1972, to place a freeze on the approval of subgrants for radio equipment purchases and to initiate a study to determine

- the type of communication equipment local law enforcement agencies have,
- what would be necessary to convert to high-band equipment, and
- whether local agencies wanted to convert to high-band equipment.

During the 13 months between the issuance of the Collins report and the Commission's decision to freeze approval of

¹The report was prepared under subcontract for the Planning Research Corporation, the prime contractor for TRACIS. When the report was issued, copies were sent to the Commission. The objectives of the report were to "analyze Iowa's present radio system, develop near-term improvement recommendations, and develop cost-effective long-term communication plans responsive to future requirements and the TRACIS message environment."

subgrants for radio equipment purchases, the Commission approved expenditures of \$379,375 for radio equipment purchases under 27 subgrants. Newspaper articles criticized the Commission's decision to approve these expenditures when it knew that much of the equipment to be purchased would be low-band equipment which would become obsolete and would be incompatible with the State's communication system should the local agencies decide to tie into the State system.

Our review of the subgrants showed that

- \$2,656 was to be used to equip new police or new police cars with radios,
- \$9,760 was to be used to buy radios for communities which previously had none,
- \$147,951 was to be used to upgrade old equipment with new high-band or ultra-high-frequency equipment, and
- \$219,008 was to be used to upgrade local old radio equipment with new low-band equipment.

In response to public criticism that it unnecessarily delayed implementing the freeze and should not have approved the expenditures, the Commission told us that (1) the Collins report projected that it would take until 1978 to implement use of high-band equipment because of the limited resources available for immediate changeover, (2) any premature restriction on radio purchases would have left some areas of the State with no or poor radio communications equipment, and (3) the Commission's controls for radio specifications and bid procedures were adequate to eliminate unnecessary purchases of radio equipment. Crime Commission officials told us the freeze was enacted primarily because LEAA regional office officials were concerned that the Commission's controls may not have been adequate to preclude the unnecessary purchase of low-band equipment and believed more specific action was needed to prevent such purchases.

There is some question as to whether the Commission acted as quickly as possible in deciding to study the local law enforcement agencies' communication needs and whether, in light of the Collins report, it should have approved all 27 subgrants. However, the Commission has recognized that it

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should address the problem and has taken action to determine how to insure that the State and local law enforcement communication systems are compatible and that local equipment does not become obsolete. This action should preclude the purchase of unnecessary radio communication equipment.

Vehicle operating expenses in Polk County, Iowa

We reviewed 4 of 16 subgrants awarded for vehicle operating expenses to subgrantees in Polk County during fiscal years 1969 through 1972 to determine whether they had received duplicate reimbursements for such expenses. There were no duplicate reimbursements.

For three of the four subgrants, however, the Commission did not effectively implement its policy of requiring subgrantees to budget for, and to reimburse, vehicle operating expenses at rates of 6 cents a mile for publicly owned vehicles and 10 cents a mile for privately owned vehicles. One subgrantee was authorized a rate of 6 cents a mile for 280,000 budgeted miles (\$16,800) but spent \$15,589 for 125,515 miles-- a rate of 12.4 cents a mile. The two other subgrantees budgeted vehicle operating expenses at a rate greater than that allowed for publicly owned vehicles.

Our review of subgrants in six other Iowa counties showed that reimbursement practices were adequate.

Commission officials told us that sometimes it was difficult to determine whether proposed mileage rates in subgrantee applications were for publicly or privately owned vehicles. To enforce their policy on travel reimbursement, the officials said they would review grant applications more closely to insure that the subgrantees specify the type of vehicles for which reimbursements will be needed so that proper rates will be applied. The officials also said they would increase their audit efforts to insure that actual expenses are in accordance with budgeted expenses.