



GAO

December 1985

COMMUNITY ACTION

Serious Financial Problems at the Columbus Community Action Organization



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Our review disclosed that CMACAO lacked an adequate financial management system for managing its fiscal operations and controlling revenue and expenses. While we could not make a precise determination of CMACAO's overall financial position, we determined it has experienced serious difficulty meeting financial obligations. In addition, other contingent liabilities could adversely affect its financial position. We found, specifically, that:

1. Arthur Andersen & Co. did not express an opinion on CMACAO's financial statements after completing a comprehensive agency-wide fiscal audit for the 3-year period ended September 30, 1984. That audit disclosed significant weaknesses in CMACAO's financial procedures and internal controls. Other certified public accounting firm and state audit reports also disclosed that CMACAO lacked documentation to support expenditures, made improper fund transfers, and overexpended budgets. In addition, we noted that CMACAO's fiscal staff did not always make timely entries to their accounting records during fiscal year 1985, and CMACAO did not prepare agency-wide financial statements to assess its cash and debt position.
2. The condition of CMACAO's financial records precluded our obtaining a complete and accurate record of its debts. We determined, however, that CMACAO had insufficient cash during fiscal year 1985 because complete and accurate grant applications were not submitted, delaying receipt of state grant funds needed primarily to pay program salaries. To pay the salaries, CMACAO delayed paying other agency expenses, including employee income tax withholdings, until the state funds were received in May 1985. Our review of accounting records showed that as of September 30, 1985, CMACAO owed \$218,440 in delinquent debts, most of which could not be paid because it had insufficient funds. Financial problems also occurred in prior years. For example, from 1981 to 1983 CMACAO improperly transferred \$447,696 of its Head Start funds to operate other programs with cash shortages. As a result, the Department of Health and Human Services declared CMACAO a high-risk grantee and restricted its funding.
3. CMACAO had contingent liabilities that could cause it additional financial problems. Independent audits have questioned \$758,937 in costs that have not been resolved by the funding sources; \$639,345 involves federal funds and \$119,592 involves state funds. Additionally, Arthur Andersen reported CMACAO was contingently liable for cash balances of programs no longer in existence. Over \$817,000 may have to be returned



United States
General Accounting Office
Washington, D.C. 20548

Human Resources Division
B-221270

December 13, 1985

The Honorable John R. Kasich
House of Representatives

The Honorable Chalmers P. Wylie
House of Representatives

This report responds to your March 19, 1985, letter, which expressed concern about the financial operations of the Columbus (Ohio) Metropolitan Area Community Action Organization (CMACAO). Columbus officials alleged that mismanagement had occurred at the agency. Because millions of federal dollars are allocated annually to CMACAO, you asked that we review the agency's financial activities.

At a later meeting with your office, we noted that a public accounting firm was auditing CMACAO's financial activities. We agreed not to duplicate this audit effort and to use data from the audit report to help determine whether CMACAO had financial management problems or had misused federal funds. Accordingly, we focused our work on financial transactions and events from October 1984 through September 1985—after the period covered by the public accounting firm. We also reviewed allegations raised against CMACAO and its administrators. Our results are summarized in this letter and discussed in detail in appendix I.

CMACAO, a community action organization serving the Columbus area, offers an array of services to low-income and economically disadvantaged citizens. It received \$7.8 million from federal, state, and city funding sources during fiscal year 1984, including \$2.7 million from the Department of Health and Human Services to administer the Head Start program, which serves primarily low-income, preschool-age children. The other \$5.1 million represented primarily federal funding provided through state and local funding sources.

We conducted our review at the CMACAO central office. During our review, we examined audit reports issued on federal, state, and local programs administered by CMACAO; reviewed procedures, controls, and documents associated with financial records; and tested selected cash disbursements to determine whether they were properly documented. In addition, we interviewed CMACAO officials, private citizens, and federal, state, and local officials concerned with the agency's liabilities.

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Abbreviations

CMACAO	Columbus Metropolitan Area Community Action Organization
CPA	certified public accounting
HHS	Department of Health and Human Services
IRS	Internal Revenue Service

to the funding source. However, CMACAO used most of the cash balances to pay other program expenses.

4. CMACAO is trying to strengthen its management and financial position. It is restructuring and automating its financial management system, has appointed a new and smaller board of trustees and a new comptroller, and is developing alternative ways to resolve delinquent debt. The effects of these actions could not be determined at the time of our review.

We found no evidence to support allegations raised against CMACAO and its administrators involving the destruction of financial records, the purchase of overvalued land used in a CMACAO-supported project, unauthorized property purchases, improperly spent Head Start playground equipment funds, and civil judgments against the executive director.

CMACAO officials reviewed a draft of this report, and their oral comments have been considered in preparing this report.

As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from its issue date. At that time, we will send copies to interested parties and make copies available to others upon request.



Richard L. Fogel
Director

CMACAO's Financial Management and Record-Keeping Problems Have Resulted in Fiscal Instability

In March 1985, Congressmen John R. Kasich and Chalmers P. Wylie requested that we review the financial operations of the Columbus (Ohio) Metropolitan Area Community Action Organization (CMACAO). This request was made in response to allegations of fiscal mismanagement noted in a letter to the Congressmen from the mayor and city council president of Columbus and three members of the Franklin County board of commissioners. Because millions of federal dollars are allocated annually to CMACAO, the Congressmen wanted us to determine whether any "wrongdoing" had taken place at CMACAO and to help remove any suspicion about the agency operations so that it could effectively serve the public.

When we began our work, a public accounting firm (Arthur Andersen & Co.) was auditing CMACAO's financial activities. We advised the Congressmen's offices of this audit and agreed to coordinate our work with the firm to avoid duplication and better focus our work on CMACAO's transactions and activities for the period following the firm's audit.

Background

CMACAO, a community action organization serving the Columbus area, was incorporated as a private, nonprofit corporation in 1964, offering an array of community services to low-income and economically disadvantaged citizens. CMACAO also subsidizes the administration and operations of the CMACAO Credit Union, a separate entity serving all county residents. CMACAO is governed by a board of trustees, which is responsible for formulating policy and monitoring agency activities. The board, which meets at least monthly, is composed of an equal number of members from the low-income, public, and private sectors. On May 24, 1984, Ohio House Bill 412 passed and set the maximum board membership for community action agencies at 33. On October 17, 1984, the CMACAO board voted to reduce its membership from 51 to 21. The current 21-member board took office in April 1985.

During fiscal year 1984, CMACAO received over \$7.8 million from city, state, and federal funding sources. The Department of Health and Human Services (HHS) directly provided \$2.7 million of the funds to CMACAO through its Head Start program, which serves primarily low-income, preschool-age children and their families. CMACAO provides these services through 15 Head Start centers, which include two subgrantee agencies. The other \$5.1 million represents mostly federal funding provided through state and local funding sources; money is provided to

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events we reviewed covered October 1, 1984, to September 30, 1985, and concentrated on identifying actual and contingent liabilities that could adversely affect CMACAO's solvency. We examined procedures, controls, and documents related to the agency's financial record-keeping system; reviewed audit reports concerning federal, state, and city programs; identified data on accounts payable; interviewed agency fiscal and administrative officials and board members knowledgeable about financial activities; and interviewed federal, state, and city officials concerned with CMACAO's liabilities.

We tested agency disbursements to determine whether proper documentation (invoices, etc.) was available and contacted some vendors to confirm the validity of their invoices. We judgmentally selected 59 of the 327 checks written in December 1984 to pay nonsalary expenses; these 59 checks represented 48 percent of the total amount paid with the 327 checks. In addition, we judgmentally selected 27 of 223 employees for the pay period ended December 14, 1984, and compared timesheets with payroll records.

To determine the validity of allegations made against CMACAO and its administrators, we interviewed newspaper reporters and other persons with information about CMACAO, compared court and property records, and reviewed documentation that we were told supported the allegations.

Our review was made between April 1985 and September 1985 and included information concerning CMACAO's funding through October 1985. We made the review in accordance with generally accepted government auditing standards. Although we did not obtain CMACAO's written comments on this report, the agency reviewed a draft of the report and its oral comments have been considered in preparing this report.

**Inadequate Internal
Accounting Controls
Led to Financial
Problems**

A good financial management system requires documented fiscal procedures and adequate internal accounting controls. CMACAO lacked an adequate financial management system for managing its fiscal operations and controlling revenue and expenses. Therefore, we were unable to make a precise determination of CMACAO's financial position. Nevertheless, CMACAO has experienced serious difficulty meeting financial obligations. Additionally, CMACAO's contingent liabilities, if they have to be paid, could further adversely affect its financial position. CMACAO has taken steps to improve its financial position; however, the effect of these actions could not be determined at the time of our review.

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such programs as Home Weatherization Assistance, Home Energy Assistance, Community Services Block Grant, Youth Employment and Training Services, and Senior Opportunities and Services.

Each CMACAO program is audited annually by the funding source or a public accounting firm. Agency-wide audits of CMACAO's financial operations are also made periodically. Most recently, Arthur Andersen & Co. conducted an agency-wide financial audit of CMACAO for the 3 years ended September 30, 1984, issuing its report on August 14, 1985.

CMACAO operated a manual financial management system except for payroll processing, which was contracted out to a local data processing company. In July 1985, CMACAO contracted with the Tri-County Community Action Agency (Athens, Ohio) to help automate its financial management system. The contract provides for installing computer hardware and software, training fiscal staff and program managers, and developing adequate internal accounting controls, with the conversion originally scheduled for about 6 months later. Under the contract, CMACAO will pay \$38,400 for services and \$27,735 for hardware and software used to operate the system. To help pay for the new system, CMACAO reduced the number of fiscal department employee positions from 11 to 8 in September 1985. This will result in annual salary savings of \$42,968.

Objectives, Scope, and Methodology

Our general objective was to determine whether CMACAO misused federal funds in operating its programs. We focused on examining financial transactions and events that occurred after the period covered by Arthur Andersen's audit and determining the extent that questioned costs noted by prior audit reports were resolved. We also determined the validity of allegations against CMACAO and its administrators. Much of the concern about CMACAO's financial management practices arose from an Ohio Department of Development audit report dated December 7, 1984, which questioned \$486,748 in costs attributed to CMACAO programs for program years 1983 and 1984. This report became the foundation for a series of newspaper articles that discredited CMACAO's fiscal management, leading to the request from Congressmen Kasich and Wylie.

To obtain information about CMACAO's financial position and financial management systems, including internal controls, we worked closely with Arthur Andersen and relied on its agency-wide audit covering October 1, 1981, to September 30, 1984. Financial transactions and

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We found that CMACAO's cash disbursement journals and general ledgers for January through August 1985 did not contain timely entries for four of its seven programs. All entries made for these four programs were from 2 to 4 months late. CMACAO's comptroller stated that entries to program cash disbursement journals should be made daily as expenditures are paid, and entries should be made to program general ledgers at least monthly. He said that because the procedures were not followed, CMACAO was unable to prepare trial balances, reconcile bank statements, or prepare expenditure reports for its programs in a timely manner. According to the comptroller, accounting records were inaccurate and incomplete; therefore, CMACAO could not prepare agency-wide financial reports on revenue and expenses to allow management to assess the agency's cash and debt position.

**CMACAO Has Serious
Financial Problems**

We attempted to determine CMACAO's delinquent debts for fiscal year 1985, even though the poor condition of CMACAO's records precluded our obtaining a complete and accurate record of its debts and a precise account of its financial position. We found that CMACAO did not meet many of its financial obligations and had delinquent debts totaling \$218,440 as of September 30, 1985. Additionally, CMACAO had financial problems in prior years. To compensate, it improperly transferred funds between grant programs which it later had to repay to the funding source. While these prior year debts have been resolved, the funding source has restricted the availability of funds to CMACAO.

**CMACAO Is Experiencing
Difficulty Paying Debts**

During fiscal year 1985, CMACAO experienced funding problems because it did not submit complete and accurate grant applications, delaying the receipt of grant funds primarily used to pay salaries and other operating expenses. Consequently, CMACAO was not able to meet all its financial obligations. To help pay its expenses, it used employment income tax withholdings and employee health insurance premiums.

According to the Ohio Department of Development, CMACAO was generally lax in meeting requirements in order to receive grant funds. This resulted in funding problems for several of the agency's programs. The state did not provide CMACAO grant funds of \$224,000 for October through December 1984 until March 1985, and calendar year 1985 grant funds of \$685,000 until May 1985 because the agency did not submit complete and accurate grant applications. The department allowed CMACAO to use these grant funds to pay delinquent taxes and health insurance premiums to the extent they were applicable to the grant.

Inadequate Financial Management System

Arthur Andersen's agency-wide audit covering October 1, 1981, to September 30, 1984, noted significant weaknesses in CMACAO's accounting procedures and controls and a significant deterioration of accounting records since the last agency-wide audit in 1981. Because of these weaknesses, Arthur Andersen did not express an opinion on CMACAO's financial statements. Specifically, the firm reported that:

- Financial data were not compiled or reported on an agency-wide basis.
- Procedures did not exist to verify that interprogram transactions were properly recorded.
- Responsibilities for authorizing, preparing, and recording cash disbursements were not properly segregated, and controls to ensure the accuracy of recorded financial transactions had not been put in place.
- CMACAO did not properly close out inactive grant programs with fund balances or deficits.
- Documentation supporting expenditures, payroll costs, and cost allocations between programs was inadequate or incomplete.

Arthur Andersen made various suggestions to improve CMACAO's overall efficiency and reduce internal control problems. Suggested short-term changes included reorganizing the accounting department on a functional basis, developing documented processing procedures and controls, developing closing procedures for financial transactions, and using a mechanized general ledger and disbursement system. Suggested long-term changes included implementing budget and expenditure authorization to strengthen fiscal accountability and control and establishing an internal control function.

Certified public accounting (CPA) and state annual audits of CMACAO's programs also noted several financial management deficiencies.

- CPA audits of the Head Start program for fiscal years 1982-84 reported improper transfers of funds to other programs, overexpenditure of budgets, inadequate controls over a subgrantee agency, and lack of documentation to support costs.
- An Ohio Department of Development audit of the Community Services Block Grant, Home Energy Assistance Program, and Home Weatherization Assistance Program for program years 1983 and 1984 reported that costs were not always supported by adequate documentation.
- A CPA audit of the city revenue sharing program for October 1, 1983, to June 30, 1984, noted that funds were improperly transferred to other programs and the internal controls for authorization and disbursement of funds were inadequate.

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2. CMACAO owed \$55,629 to the city of Columbus. In 1982, CMACAO received funds from the city in order to participate as a partner in a low-income federal housing project called Barnett Plaza. CMACAO agreed with the city to place its share of the proceeds from the housing project into an interest-bearing escrow account, for use in funding other community development projects. From December 1983 to January 1985, CMACAO received from the project proceeds totaling \$55,629, but did not put the funds in an escrow account. Under the terms of the agreement with the city, CMACAO is obligated to pay the funds to an escrow account.

3. CMACAO owed \$37,130 for audit and legal services. It owed \$19,130 for audits covering October 1, 1981, to September 30, 1984. The fee for these audits was \$103,130, of which CMACAO has paid \$84,000. CMACAO also owed about \$18,000 for legal services provided to the agency.

4. CMACAO owed \$10,292 to the Ohio Bureau of Workers' Compensation. Employers must make premium payments to the bureau every 6 months. However, CMACAO's coverage lapsed from March 1 to April 28, 1985, because it did not pay premiums of \$37,149 owed for the period ended December 31, 1984. Its coverage was reactivated April 29, 1985, when it paid \$28,794 in premiums owed. However, after the payment it still owed \$8,355 for premiums and \$1,937 for a penalty due to late payments.

5. CMACAO owed its credit union \$9,473 for a loan acquired during 1985. When CMACAO experienced Community Service Block Grant funding delays, it borrowed \$26,473 in January 1985 to pay employee salaries; a balance of \$9,473 remains.

Prior Financial Problems

Contrary to HHS regulations, CMACAO transferred \$447,696 in Head Start money to other programs from 1981 through 1983 in order to meet obligations of other programs that overexpended their grants or to provide funds to programs that experienced temporary cash shortages due to funding delays.

Under the Head Start program, CMACAO obtained its funds through a letter-of-credit arrangement that allowed it to draw down cash to meet immediate agency needs. CMACAO was able to transfer Head Start funds because it frequently drew down more money than it needed. CPA audit reports of the program showed that CMACAO retained unspent cash balances ranging from \$300,000 to \$600,000 during the period 1981 through 1983. In 1984, HHS required CMACAO to refund the \$447,696 it

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CMACAO used employee income tax withholdings for October 1984 through April 1985 to pay salary and other operating expenses instead of depositing the withholdings with the Internal Revenue Service (IRS) as required by IRS regulation. We advised IRS of this matter, and in May and June 1985, it collected delinquent taxes of \$331,534 from CMACAO. According to CMACAO officials, IRS notified the agency on August 30, 1985, that it still owed \$110,000, most of which represented penalty and interest assessed on late withholding deposits during 1984 and 1985. CMACAO officials said they met with IRS and requested it to waive (forgive) the penalty. CMACAO advised us that IRS approved the waiver request and required the agency to pay only \$30,000 to cover back taxes and interest charges. CMACAO paid IRS the \$30,000 on September 20, 1985.

CMACAO similarly used \$53,886 in health insurance premiums from November 1984 through April 1985 to pay operating expenses. During this period, CMACAO officials contacted insurance carrier representatives, who agreed to continue covering CMACAO employees, but not to process any claims until payments were current. CMACAO paid the delinquent health insurance premiums on May 23, 1985.

As mentioned on page 10, CMACAO's accounting system did not provide for an agency-wide record of its total debts. Instead it provided for data only on individual programs. Through our review of the agency's accounting records as of September 30, 1985, we identified debts totaling \$218,440. Of this total, \$161,545 represented debts to the Ohio Bureau of Employment Services and the city of Columbus. The remaining \$56,895 represented audit and legal fees, workers' compensation premiums, and credit union loans. CMACAO's comptroller told us he must set priorities on the debts and negotiate payment arrangements because funds were not available to satisfy all of them:

1. CMACAO owed unemployment contribution payments totaling \$105,916 for the first and second quarters of calendar year 1985. According to state unemployment compensation law, a contributing employer must remit payment to the Ohio Bureau of Employment Services at the end of the month following the close of the calendar quarter. Failure to do so subjects the employer to interest and penalty charges. According to a bureau official, employees continue to be covered for unemployment compensation as a matter of policy, even though payments are not made.

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1982 and 1983 audits, but HHS has not yet decided whether the remaining \$103,424 reported as questioned costs in the 1984 audit should be repaid. On August 15, 1985, CMACAO appealed the HHS decisions regarding the 1982 and 1983 audits. CMACAO's comptroller said HHS had not made a decision on the appeals as of September 30, 1985.

On December 7, 1984, the Ohio Department of Development issued an audit report to CMACAO that covered the Community Services Block Grant for 1983 and 1984, the Home Energy Assistance Program for 1983 and 1984, and the Home Weatherization Assistance Program for 1983. The department questioned grant costs totaling \$486,748, and CMACAO later provided documentation to support \$367,156 of these costs. As of September 30, 1985, CMACAO had not provided documentation to resolve the remaining \$119,592.

A CPA audit report identified \$232,887 of interest and program income associated with a Community Services Administration program that ended September 30, 1981. Program income can be used after the grant period, but interest income must be repaid to the funding source. CMACAO claims the \$232,887 was program income used for authorized expenditures. However, an official of the federal Office of Community Services, which is responsible for closing out all Community Services Administration grants, told us the entire amount will remain questioned until a CPA audit certifies the source of the income and verifies the propriety of expenditures charged against the income. As of September 30, 1985, CMACAO had not contracted for the audit.

Additionally, Arthur Andersen reported that CMACAO was contingently liable to refund \$315,010, representing unexpended fund balances relating to six programs no longer in existence. We determined that the balance could be \$93,962 greater than this figure because one of the funding sources questioned the balance owed to it by CMACAO. The funding agency requested that program expenditures be verified through a CPA audit, but as of September 30, 1985, CMACAO had not contracted for the audit.

According to Arthur Andersen, CMACAO had additional fund balances from inactive programs totaling \$408,241. However, the Arthur Andersen report stated it was unable to determine whether the amounts represented funds available for CMACAO's general use or funds that should be returned to the funding sources. Therefore, the firm suggested that CMACAO analyze grant records and determine the appropriate disposition of these balances.

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had borrowed from the Head Start program. According to two CPA audit reports, CMACAO had repaid all or most of the funds; one of the reports showed that CMACAO still owed \$10,339, while the other showed that CMACAO overpaid the Head Start program \$53,859. HHS officials told us that as of October 21, 1985, the discrepancy had not been resolved.

HHS declared CMACAO a "high-risk organization" because of its poor financial stability, high financial dependence on federal support, and serious deficiencies in program or business management systems. As of April 1, 1985, HHS rescinded CMACAO's eligibility to obtain Head Start funds through a letter of credit and provided funds on a cash reimbursement basis. This change was intended to prevent CMACAO from receiving large cash advances and required it to submit vouchers in order to receive funds for program expenses. HHS officials told us that CMACAO will remain on high-risk status until it shows a prolonged period of improved performance.

Contingent Liabilities Exist

CMACAO had contingent liabilities for questioned costs of \$758,937 noted in audit reports and unexpended fund balances of \$817,213 remaining from inactive programs. These potential liabilities could cause additional funding problems for the agency.

CMACAO is in the process of resolving various program audits that questioned costs due to budget overruns, insufficient documentation, and inapplicable expenditures. We do not know how much of the unresolved questioned costs will be disallowed, but any repayment will cause CMACAO financial hardship because, according to the comptroller, it does not have funds available to satisfy the liabilities. As of September 30, 1985, questioned costs of \$758,937 involving three programs were unresolved, as shown in table I.1.

Table I.1: CMACAO Questioned Costs

Program	Questioned Costs
Head Start program	\$406,458
State programs	119,592
Community Services program	232,887
Total	\$758,937

Audits of the Head Start program from 1982 through 1984 identified questioned costs totaling \$406,458. On July 12, 1985, HHS informed CMACAO that it should repay the program up to \$303,034 identified in

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income even though past economic development projects have not been very successful. They told us that improved management may prevent financial problems from recurring. The effect of these actions could not be determined at the time of our review.

Other Allegations Were
Not Supported

Various allegations have been made by Columbus citizens about CMACAO and its administrators. These allegations involved the destruction of CMACAO's financial records, overvalued land used in an agency-backed project, unauthorized property purchases, misuse of Head Start playground equipment funds, and irregularities in the personal affairs of CMACAO's executive director. Our investigation disclosed that none of these allegations was supported by the evidence or documentation we reviewed.

Financial Records Were Not
Destroyed

It was alleged that CMACAO was going to destroy records in order to prevent detection of its financial mismanagement and wrongdoing. A Columbus newspaper reporter told us that she had observed various plastic trash bags being removed from CMACAO's premises on March 28, 1985. The reporter retrieved some of the contents in the bags and provided the contents to us on April 5, 1985, for review. The contents were copies of original vouchers and canceled checks, typing drafts, and miscellaneous memos. On April 10, 1985, we observed other trash bags at CMACAO awaiting disposal. Our examination of the contents disclosed that the bags contained copies of agency publications and memos. We did not find any evidence to support the allegation.

Project Land Was Not
Overvalued

CMACAO is a partner in a federally supported housing project called Barnett Plaza, Inc. Several persons alleged that one of CMACAO's partners purchased land for \$600,000 and immediately sold it to the project for \$1.2 million, realizing a significant gain at the project's expense.

We reviewed contract closing documents on the Barnett Plaza project, which revealed that the partner acquired for the project an option to purchase a 5-acre tract of land for \$100,000. The project acquired the land at the option price. According to a federal Department of Housing and Urban Development official, the price for the land was reasonable, based on the value of other comparable properties in the area. Also, a CPA audit report, covering the year ended December 31, 1983, confirmed that the project's land was valued at \$100,000. Thus, we found no evidence to support the allegation.

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CMACAO officials told us that much of the fund balances in the inactive programs were used to pay various other program expenses. The comptroller planned to contact the appropriate funding sources and hoped that CMACAO would not be required to refund the balances.

**Actions Taken to Improve
Financial Position**

CMACAO is trying to strengthen its management and financial position. It is restructuring and automating its financial management system, has appointed a new and smaller board of trustees and a new comptroller, and is developing alternative ways to resolve outstanding debt.

CMACAO has taken steps to reorganize and automate its fiscal department. In July 1985, CMACAO entered into a contract with the Tri-County Community Action Agency to install an automated fiscal management system and to develop adequate internal accounting controls. According to the CMACAO comptroller, by February 1986 about 90 percent of the automated system will be operational. He believes the new system will allow CMACAO to readily obtain accurate statements of its financial position, which will enhance cash management.

A change in the number of board members from 51 to 21 is intended to improve the functioning of CMACAO's board of trustees. The board's finance committee has also been restructured to emphasize financial planning and budgeting, identifying profitable enterprises, and seeking private funding to improve the agency's cash position.

On April 15, 1985, CMACAO hired a new comptroller, who has taken steps to improve the agency's financial position. The new comptroller initiated the automated fiscal management system and attempted to determine CMACAO's cash position and arrange a settlement of current liabilities and delinquent debts.

To settle outstanding liabilities, CMACAO is considering several alternatives. According to the board president, the finance committee will be seeking private funding from companies and foundations to improve CMACAO's cash position. He believes companies will provide money to the agency once its financial problems have been resolved. CMACAO currently operates two programs that provide training to help unemployed persons apply for jobs. According to the comptroller, these programs have been a source of income. In 1985, one program earned \$54,550, which was used to help pay 1984 delinquent taxes. CMACAO's comptroller is considering other similar programs to generate income. According to CMACAO officials, business ventures may be another source of additional



**No Evidence of
Unauthorized Purchases of
Property**

It was alleged that CMACAO officials made several unauthorized purchases of property by investing program money without the consent of the funding sources. CMACAO's records showed that it owned five properties. Three were empty lots that had been donated and two had been purchased. One property was purchased in 1980 for \$55,000 with Community Services Administration funds for use in an economic development project that was authorized by the grant. Because the project was not developed, CMACAO sold this property for \$45,000 on May 24, 1985, and returned the proceeds to the federal Office of Community Services. On August 29, 1985, CMACAO borrowed \$18,254 and purchased a second property for use as a county action center. We did not identify any improprieties in the acquisition of these properties.

**Head Start Playground
Equipment Funds Were
Properly Spent**

One person we interviewed told us that the South-Western City Schools Head Start program, a CMACAO subgrantee agency, budgeted \$85,000 for the purchase of playground equipment in 1980. In attempting to verify the purchase, she told us she observed empty boxes of what school officials claimed to be playground equipment. She concluded that only a small amount of equipment had been purchased and installed at one of the school's two Head Start centers and believed the remaining funds must have been illegally diverted for other purposes.

A CPA audit report and a state of Ohio audit report on the Head Start project for 1980 showed that \$47,054, not \$85,000, was budgeted and spent on the purchase of equipment at the South-Western City School, most of which was not playground equipment. We reviewed Head Start expenditure reports, invoices, and canceled checks for program year 1980 and verified the purchase of \$47,054 of equipment. Of this total, only \$8,218 represented playground equipment that was to be installed at the school's two Head Start centers. We visited the two centers and verified that \$4,109 in playground equipment was installed at each center. Based on our review of reports and records, we found no evidence to support that funds budgeted for Head Start playground equipment had been diverted for other uses.

**Civil Judgments Against the
Executive Director Were
Unfounded**

Because court records showed that the name of a defendant in five civil judgments from 1976 to 1979 totaling \$104,487 was similar to the executive director's name, several persons alleged that he diverted agency funds to satisfy these judgments. Our review of court records showed that CMACAO's executive director was not the same person associated with these judgments.



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