Examination Into The Financial Activities Of The Ohio-Kentucky-Indiana Regional Transportation And Development Plan And The Ohio-Kentucky-Indiana Regional Planning Authority

B-173350

BY THE COMPTROLLER GENERAL OF THE UNITED STATES

JUNE 2, 1972

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

B-173350

Dear Messrs. Clancy and Keating:

This is our report on our examination into the financial activities of the Ohio-Kentucky-Indiana Regional Transportation and Development Plan and the Ohio-Kentucky-Indiana Regional Planning Authority, which you requested in a joint letter dated June 4, 1971.

We have not obtained formal comments on the contents of the report from the Federal, State, and local agencies responsible for the activities discussed in the report. This fact should be considered in any use made of the information presented.

We plan to make no further distribution of the 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,

Elmer B. Staats

Comptroller General
of the United States

2 Add.

C1 & R1 R2 The Honorable Donald D. Clancy and
C2 The Honorable William J. Keating
House of Representatives

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ABBREVIATIONS

DCAA	Defense Contract Audit Agency
FHWA	Federal Highway Administration
GAO	General Accounting Office
Hamilton County	Hamilton County Regional Planning Commission
HUD	Department of Housing and Urban Development
Planning Group	Ohio-Kentucky-Indiana Regional Transportation and Development Plan

COMPTROLLER GENERAL'S REPORT TO THE HONORABLE DONALD D. CLANCY AND THE HONORABLE WILLIAM J. KEATING HOUSE OF REPRESENTATIVES

EXAMINATION INTO THE FINANCIAL ACTIVITIES OF THE OHIO-KENTUCKY-INDIANA REGIONAL TRANSPORTATION AND DEVELOPMENT PLAN AND THE OHIO-KENTUCKY-INDIANA REGIONAL PLANNING AUTHORITY B-173350 1797

DIGEST

WHY THE REVIEW WAS MADE

In response to a request from Congressmen Donald D. Clancy and William J. Keating, the General Accounting Office (GAO) examined into the financial activities of the Ohio-Kentucky-Indiana Regional Transportation and Development Plan (Planning Group) and Regional Planning Authority. These organizations were formed to conduct transportation and urban-planning activities in the greater Cincinnati, Ohio, area. The area comprises nine counties: Butler, Clermont, Hamilton, and Warren in Ohio; Boone, Campbell, and Kenton in Kentucky; and Dearborn and Ohio in Indiana.

GAO determined the source and amount of Federal funds provided for transportation and urban planning in the area; the purpose for which these funds were spent; and, on a test basis, the propriety of such expenditures.

FINDINGS AND CONCLUSIONS

Planning activities in the Cincinnati area have been carried out in two separate, overlapping phases. The initial phase began in January 1964 when the Planning Group organized a regional planning effort. The Planning Group was organized by and is under the direction of representatives of the State highway departments in three States and local elected officials and planning agency representatives of the nine counties. (See p. 5.)

The second phase began in November 1967 when a nonprofit corporate structure--the Authority--was organized as a permanent official agency for the area to continue the activities of the Planning Group, to provide comprehensive planning on a regional basis, and to carry out other functions. The Planning Group, however, has continued in existence to complete the planning activities initiated by it for Ohio.

The activities of the Planning Group and the Authority have been carried out under the direction of the same individuals. The two planning phases are carried out concurrently, and financial control over each phase is separate. (See p. 6.)

The Planning Group

The major studies of the Planning Group have been substantially completed and are presented in 22 individual reports. As of December 31, 1971, the total

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estimated cost of the activities of the Planning Group was about $3.3 million--about $2.4 million in Federal funds and about $900,000 in non-Federal funds. Of the Federal funds involved, $2,100,000 was received and spent; $236,000 was earned but not yet received; and $55,000 was needed to complete previously authorized activities.

The activities of the Planning Group were divided into two phases--a development phase and a transportation phase. Federal funds were provided by the Department of Housing and Urban Development (HUD) for the development phase and by the Federal Highway Administration for the transportation phase. Non-Federal funds were provided by the sponsoring organizations and the highway departments of all three States. Federal funds were not provided directly to the Planning Group, but instead HUD and the Highway Administration provided certain of the Planning Group's sponsoring organizations with funds. (See p. 7.)

Audits of costs incurred by the Planning Group have been made by HUD, the Auditor of the State of Ohio, the highway departments of Ohio and Kentucky, and the Defense Contract Audit Agency. Most of the findings disclosed by these audits have been satisfactorily resolved. (See pp. 11 to 16.)

In 1969 and 1970 Cincinnati area newspapers reported that certain questionable costs had been incurred by a consultant under a contract with the Planning Group. An official of the Defense Contract Audit Agency informed GAO that the consultant had excluded all but one of the items from proposed costs because of the newspaper publicity. The remaining item was disallowed as a result of audits. (See p. 14.)

In addition, GAO noted that the Ohio highway department in its audits was concerned with its own share of costs and did not transmit its audit findings to the Kentucky and Indiana highway departments. GAO believes that the Ohio highway department should notify the other two highway departments of its audit findings since questionable matters found in its audits may be applicable also to the cost paid by the other highway departments. (See p. 13.)

The Authority

As of December 31, 1971, the Authority had received 10 Federal grants. Expenditures totaled about $1,452,800, of which about $801,600 was Federal funds. An additional $130,000 in Federal funds was earned but not yet received, and $161,900 in Federal funds will be needed to complete the work authorized under these grants. Federal funds have come from the Departments of Health, Education, and Welfare and Transportation and from HUD and the Environmental Protection Agency. Local matching funds are contributed by the nine counties in the planning area. (See p. 17.)

Audits of the Authority's costs have been made by a public accounting firm and by HUD. Audits found that, for the periods ended June 30 and December 31, 1969, and December 31, 1970, the Authority had an operating deficit. A public accounting firm was retained by the Authority to make an examination of its financial statements for the year ended December 31, 1971.

The basic cause of the deficits was the Authority's failure to obtain firm agreements for financial support from the nine counties in the planning area. Some improvement has been made in this regard. GAO believes, however, that, unless the Authority can obtain firm agreements from the counties to finance its deficit and other operating needs, it will continue to face financial difficulties.

The audits also found several administrative deficiencies. The Authority has made some improvements regarding some of these matters. Further improvements are being made. (See p. 17.)

GAO's limited test of the propriety of expenditures made by the Authority disclosed no major questions regarding the validity of the expenditures but did point up the need for written policies and procedures for recording financial transactions. The Authority is preparing the needed guidance.

GAO suggested that the Authority make certain improvements regarding control of grant costs, printing and distribution of reports, and the issuance of policy guidance documents. The Authority agreed with the suggestions and initiated corrective actions. (See p. 23.)

UNRESOLVED ISSUES

In 1972 several Federal agencies are expected to audit Authority records relating to their grants. To minimize disruption of Authority operations and to save audit time and costs, GAO believes that it may be appropriate to assign responsibility for future audits of the Authority's Federal grants to a single Federal audit group. GAO noted several matters which should be considered by two of the Federal agencies in their audits. (See p. 21.)

MATTERS FOR CONSIDERATION BY THE CONGRESSMEN

In view of the matters discussed in the report, the Congressmen may wish to consider providing the applicable Federal, State, and local agencies with copies of the report.

CHAPTER 1

INTRODUCTION

At the request of Congressmen Donald D. Clancy and William J. Keating (see app. I), we reviewed certain financial matters applicable to transportation and urban-planning activities in the greater Cincinnati, Ohio, area, which were carried out as part of the Ohio-Kentucky-Indiana Regional Transportation and Development Plan and by the Ohio-Kentucky-Indiana Regional Planning Authority. The area comprises nine counties: Bulter, Clermont, Hamilton, and Warren in Ohio; Boone, Campbell, and Kenton in Kentucky; and Dearborn and Ohio in Indiana. A map of the planning area is included as appendix II of this report.

In accordance with the request and subsequent discussions with the Congressmen's staffs, we determined the source and amount of Federal funds provided for transportation and urban planning in the area; the purposes for which these funds were spent; and, on a test basis, the propriety of such expenditures.

Planning activities in the Cincinnati area have been carried out in two separate, overlapping phases. Under the initial phase representatives of the State highway departments in Ohio, Kentucky, and Indiana and local elected officials and planning agency representatives of the nine counties organized a regional planning effort in January 1964 called the Ohio-Kentucky-Indiana Regional Transportation and Development Plan.

A coordinating committee was organized to act as the governing body for the Planning Group. The committee included representatives of each State highway department; the Federal Highway Administration (FHWA); each of the nine counties; the Northern Kentucky Area Planning Commission; and the Ohio cities of Cincinnati, Fairfield, Hamilton, and Middletown. The activities of the Planning Group were to be administered by a study director and were designed to provide a coordinated approach to transportation and development planning in the area.

The second phase began in November 1967 when a new nonprofit corporate structure--the Ohio-Kentucky-Indiana

Regional Planning Authority--was organized as a permanent official agency for the nine-county area to continue the activities which had been started by the Planning Group, to provide comprehensive planning on a regional basis, to serve as an areawide review agency for various categories of Federal assistance, and to carry out certain other functions. The Authority is governed by a board of trustees which represents the various local governments.

The Ohio highway department provides financial support for area transportation planning through the Hamilton County Regional Planning Commission (Hamilton County), and the department has insisted that certain contracts and other activities which were initiated by the Planning Group should be completed under the direction of the Planning Group. For this reason the Planning Group has continued in existence to complete the planning activities initiated by it that relate to Ohio. The Authority has taken over responsibility for transportation planning for the remaining five counties in the nine-county area.

The activities under the Planning Group and the Authority have been carried out concurrently under the direction of the same persons. Financial control over each phase is separate. Therefore the financial aspects of the two phases are dealt with separately in the report.

CHAPTER 2

THE OHIO-KENTUCKY-INDIANA REGIONAL TRANSPORTATION AND DEVELOPMENT PLAN

The total estimated cost of the activities of the Planning Group as of December 31, 1971, was about $3.3 million, of which about $2.4 million was Federal funds and about $900,000 was non-Federal funds. About $2.1 million in Federal funds had been spent at that time.

The activities carried out by the Planning Group were divided into two phases--a development phase and a transportation phase--and involved various studies, such as traffic surveys, origin and destination studies, and other activities generally aimed at determining where and how people traveled and where development in the area was taking place.

The development phase has been financed approximately two thirds by the Department of Housing and Urban Development and one third by sponsoring organizations. The transportation phase has been financed approximately three fourths by FHWA and one fourth by the sponsoring counties in Ohio and the highway departments of all three States.

Funds were not provided directly to the Planning Group, but instead HUD and FHWA provided certain of the Planning Group's sponsoring organizations with funds needed to carry out the activities of the Planning Group. These activities have been carried out through local governments and planning agencies which either did the work in-house or contracted with consulting firms or other organizations for specific tasks.

The following table shows the source and amounts of Federal funds received as of December 31, 1971, and the estimated additional Federal funds to be spent to complete the activities of the Planning Group.

Development phase:		
Federal funds--HUD--granted to:		
Northern Kentucky Area Planning Commission	$ 103,300	
Kentucky Program Development Office (Boone County)	7,200	
Hamilton County Regional Planning Commission	490,800	$ 601,300
Transportation phase:		
Federal funds--FHWA--provided to:		
Ohio highway department	1,164,600	
Kentucky highway department	314,500	
Indiana highway department	19,500	1,498,600
Total		2,099,900
Federal funds due sponsoring organizations from FHWA and HUD for work already performed		235,500
Additional Federal funds to complete work of Planning Group		55,300
Anticipated non-Federal funds		872,300
Total estimated cost of activities of Planning Group		$3,263,000
Total estimated Federal share		$2,390,700

The major studies of the Planning Group have been substantially completed and are contained in 22 individual reports; however, an overall operations plan was not approved by the three States and certain work on the transportation phase was not finalized at the time of our review. The Planning Group's study director informed us that all work of the Planning Group should be completed by July 1, 1972. A more detailed explanation of the source of the funds spent on the activities carried out by the Planning Group is included in appendix III.

Each of the counties in Ohio and Indiana and the Ohio highway department entered into agreements with Hamilton County whereby Hamilton County would act as a disbursing

agency for the Ohio and Indiana portions of the development phase and the Ohio portion of the transportation phase. The funds disbursed by Hamilton County constituted the major portion of the funds used for the costs of conducting the transportation and development plan.

The Northern Kentucky Area Planning Commission and the Kentucky Program Development Office directly accounted for and disbursed the funds granted to them by HUD for the Kentucky portion of the development phase, and the Indiana and Kentucky highway departments directly accounted for and disbursed funds for their portions of the transportation phase.

In 1965 Hamilton County hired a public accounting firm to record the transactions relating to the funds controlled and disbursed by it and to establish an overall accounting system. The accounting system provided for the separation of costs between those activities financed, in part, with HUD funds and those financed, in part, with FHWA funds. The system also included a single fund control account through which Hamilton County would record receipts and disbursements.

The Planning Group's study director maintained all accounting records supporting the transactions related to the receipt and disbursement of funds by Hamilton County for the activities of the Planning Group. When the Authority came into existence the Planning Group's study director became the Authority's executive director and continued to maintain the accounting records supporting these transactions. This arrangement continued until mid-1970 when a dispute arose between the Authority and Hamilton County as to which would maintain the accounting records supporting the fund control account.

The Authority tried to transfer the records to Hamilton County but Hamilton County would not accept them and claimed that it could not verify the accuracy of the figures. Thereafter the Authority continued to retain possession of the records but discontinued day-to-day recording of transactions for a period of about a year.

Early in 1971 the Authority hired a public accounting firm to reconstruct the financial transactions associated

with the fund control account during this 1-year period, update the accounting records, and prepare financial statements. Since that time the Authority has recorded transactions and maintained the accounting records supporting the transactions on a current basis.

At the time of our review, the Authority planned to continue maintaining the supporting accounting records as long as the use of the fund control account was necessary. There was no written agreement on this matter.

The fund control account will continue to be used to receive and disburse funds provided by the Ohio highway department because the Ohio highway department will not recognize the Authority as the transportation planning agency for the area until all the studies of the Planning Group are completed. The Authority has made attempts to have the Ohio highway department recognize the Authority as the transportation planning agency in the area so that funds can be received directly by the Authority and use of the fund control account can be discontinued. As of January 31, 1972, such recognition had not been received.

EXPENDITURES BY THE PLANNING GROUP

We reviewed the reports of audits of the expenditures of the Planning Group made by Federal and State agencies and followed up selected findings in these reports to determine their final disposition.

Audits of development phase

In 1968 and 1970 HUD audited the grants awarded to the Northern Kentucky Area Planning Commission and the Kentucky Program Development Office for the Kentucky portion of the development phase and approved final project costs totaling $176,100, which included $111,200 in Federal funds. No significant findings were disclosed during those audits.

HUD also made two interim audits on the grant awarded to Hamilton County that covered the period June 1964 to March 1968 and involved total expenditures of about $571,000. HUD questioned the

--use of HUD funds by the Planning Group to finance activities under the transportation phase,

--lack of administrative policies concerning fringe benefits for part-time employees,

--use of project funds for ineligible services,

--payment of full salary to a military reservist while on military leave,

--lack of time and attendance or leave records for staff employees,

--failure of Hamilton County to submit certain contracts to HUD for approval,

--lack of detailed records supporting services furnished by other municipalities,

--need to reconcile financial statements submitted by Hamilton County to HUD with the information contained in the accounting records,

--budget overrun for certain expenses, and

--failure to certify all vouchers prior to payment.

At the time of our review, Hamilton County had resolved all of the above exceptions by (1) replacing funds used for ineligible services or to finance activities under the transportation phase, (2) obtaining the necessary documents to support the activities charged to the grants, and (3) instituting the necessary administrative procedures and controls to correct the weaknesses and deficiencies noted during the two interim audits.

HUD completed its final audit of this grant in late December 1971, but a report on the audit had not been issued at the time of our review.

The Auditor of the State of Ohio also examined records pertaining to this grant in 1966, 1967, and 1970 as part of an overall examination of Hamilton County's financial activities. No significant findings were disclosed.

Audits of transportation phase

As of December 31, 1971, costs under the transportation phase were incurred as follows:

State highway departments	$ 666,000
Planning Group and Authority staff	611,800
Consulting firm	826,600
	$2,104,400

Audits have been made of certain of these costs by the Ohio and Kentucky highway departments and by the Defense Contract Audit Agency (DCAA) and are discussed below.

The Ohio highway department has audited all costs incurred by the Planning Group and Authority staff for salaries, travel, and other administrative costs to October 31, 1970, totaling about $471,400, and has taken exception to about $13,200. Generally the exceptions involved amounts which should have been charged to other programs and amounts not approved in advance by Ohio. The dollar amount of exceptions

taken by the highway department is routinely deducted from subsequent payments.

The Ohio highway department shared 82 percent of total costs of the transportation phase of the plan; the Kentucky highway department, 16 percent; and the Indiana highway department, 2 percent. The Ohio highway department did not notify the other two organizations of its audit exceptions. We think the Ohio highway department should notify the other two highway departments of its audit findings since questionable matters disclosed in its audits may be applicable to the costs paid by the other two highway departments.

On January 3, 1972, the Ohio highway department began an audit of costs, totaling about $140,000, incurred by the Planning Group and the Authority from November 1, 1970, to December 31, 1971. This audit was not completed at the time we concluded our review.

Audit of expenditures incurred under contracts with a consulting firm

The Kentucky and Indiana highway departments and Hamilton County (acting for the Ohio highway department) each contracted with a consulting firm for transportation surveys and studies. The work was to be done by the consultant in two parts--part I consisted of surveys and studies for Boone, Campbell, and Kenton Counties in Kentucky, and part II consisted of surveys and studies for the entire nine-county area. Because of increases in contract scope, delays in completing contract work, and inflation, total authorized costs have increased since the contracts were awarded in June and August 1965 from about $544,000 to about $920,000.

The Kentucky highway department audited expenditures under part I in late 1969. The audit covered expenditures of $205,300 incurred during the period July 1965 to March 1967 and resulted in exceptions, totaling $6,200, that related principally to ineligible employee expenses and the overcharging of payroll taxes. The exceptions had not been settled as of December 31, 1971. An amount of $20,500 due the consultant under the contract was available at that time for offset purposes but no offset had been made.

The Ohio highway department audited expenditures of about $501,300 incurred in the period July 1965 to June 1969 under the consultant's contracts for part II of the transportation phase. The initial report on this audit was issued to the FHWA Division Office in Ohio in November 1969 and contained exceptions amounting to about $86,200 in costs charged to the contract. In a revised audit report issued in October 1970, the amount of costs questioned was increased to about $90,000. About $18,800 of this amount was for direct charges for computers, local office rent, and other items. The remainder was associated with overhead costs.

Because the consultant had its subsidiary companies working on the contract, audit questions were raised as to whether a consolidated overhead rate or individual company overhead rates should be used and to what base the rate or rates should be applied.

About the time the audits by the Kentucky and Ohio highway departments were being made, newspapers reported that the questionable costs listed below had been charged to the consultant's contracts.

	Cost
1. Trip to Nairobi, Kenya	$1,100
2. Football tickets	60
3. Cocktail party, Louisville, Kentucky	300
4. Round-the-world airline ticket	2,386
5. Air freight for pets	57
6. Air travel for daughter of company official	Unknown

Because of the questions raised regarding overhead rates and the items reported by the newspapers, FHWA, in December 1969, requested DCAA to develop the overhead rates to be applied to costs incurred by the consultant in 1966, 1967, and 1968. The Ohio highway department provided data from its audit to DCAA.

DCAA issued its report in June 1970. Certain cost items were questioned and eliminated from total overhead costs to arrive at consolidated company overhead rates for 1966, 1967, and 1968. The calculation of those rates excluded the cost

of the trip to Nairobi, Kenya. A DCAA official told us that the other items listed above did not appear in the report because they already had been excluded by the consultant from the proposed overhead costs due to the newspaper publicity given them.

After reviewing the DCAA audit report, FHWA recommended that costs charged to a job development account maintained by the consultant be disallowed because such costs were not allowable under the Federal Procurement Regulations. Costs similar to those reported in the newspapers were normally charged to this account. On the basis of FHWA's recommendation and data from DCAA's audit, the Ohio highway department adjusted the overhead calculations applicable to the consultant's contract.

In November 1970 the Ohio highway department advised Hamilton County of the results of its audit and proposed that one of three alternative overhead rates be allowed: (1) a consolidated rate covering the parent firm and all subsidiary companies, (2) a rate covering each company that furnished direct labor under the contract, or (3) a rate covering only the specific company with which Hamilton County entered into the contract.

Hamilton County agreed to allow the second alternative, and by June 1971 the Ohio highway department, Hamilton County, and the consultant agreed on the rates and the base to which the rate would be applied. The Ohio highway department stated in a letter to Hamilton County that the amount of ineligible overhead charges was reduced from about $71,300 to about $10,000 as a result of the DCAA audit and the suggestions by FHWA.

Although all parties apparently have agreed on the overhead rates for 1966-1968 and the elimination of about $18,800 of direct charges, no final adjustments have been made between Hamilton County and the consultant. Hamilton County's executive director told us that settlement of the exceptions would not take place until after a final audit of the contract had been made. This audit will be requested as soon as the consultant submits a final invoice.

The executive director also said that, as of December 31, 1971, about $119,000 was due the consultant for work

done and that any exceptions taken on past as well as future audits could be offset against that amount. Kentucky and Indiana also owed the consultant a total of about $14,400 at that time.

CHAPTER 3

THE OHIO-KENTUCKY-INDIANA REGIONAL PLANNING AUTHORITY

The Authority has been financed principally by direct Federal grants and by contributions from the nine counties represented by the Authority. Also the Authority has received funds, directly or indirectly, from the three State highway departments to complete some of the activities of the Planning Group.

As of December 31, 1971, the Authority had received 10 Federal grants. Total expenditures under these grants amounted to about $1,452,800, including $801,600 of Federal funds. An additional $130,000 in Federal funds was earned but not yet received at that time. The Authority estimated that the total cost of these projects would be about $1,695,600 and that an additional $161,900 in Federal funds would be needed to complete them.

Grants have been received from the Department of Health, Education, and Welfare; the Environmental Protection Agency; HUD; and the Department of Transportation. These grants provide for varying local cost-sharing arrangements ranging up to 50 percent. The local funds required under the grants and for the general operation of the Authority are to be contributed by the nine counties in proportion to their respective populations. Details regarding the sources of funds and expenditures by the Authority are presented in appendix IV.

AUTHORITY EXPENDITURES

A public accounting firm has made two audits of the Authority's financial condition and HUD has made an audit of costs incurred under three of its grants. The results of these audits are discussed below.

Audits by a public accounting firm

The public accounting firm's first audit report was issued in November 1969 and disclosed that the Authority had a deficit of about $61,200 as of June 30, 1969. Some of the factors that contributed to the deficit were (1) costs incurred on projects prior to the approval of the Federal grants covering those projects, (2) costs incurred on projects for which grants were never received, (3) a project cost overrun, and (4) insufficient local contribution. The Authority had to borrow operating funds from Hamilton County and from a bank.

In December 1969 the public accounting firm submitted comments and suggestions on the Authority's operations. The accounting firm pointed out that the June 1969 deficit resulted because the Authority did not have firm agreements with the nine counties for its financial support and that such agreements were essential for financial stability.

The firm recommended that future financial agreements covering the nine counties should provide not only for local matching funds required under Federal grants but also for (1) additional amounts needed to eliminate the deficit, (2) cash contributions for general operating expenses not covered under Federal grants, and (3) if appropriate, identification of the specific services to be rendered by the counties. Other recommendations were made regarding the need to improve financial reporting, documentation of expenditures, and distribution of costs.

The second audit report issued by the accounting firm in March 1971 disclosed that the Authority had deficits of $76,700 and $36,900 at December 31, 1969, and December 31, 1970, respectively. The basic reason for the 1969 deficit was stated to be the lack of firm agreements for financial support by the nine counties. Some of the factors that contributed to the 1970 deficit were (1) an understatement in the 1970 budget of the deficit carryover from the preceding year, (2) project cost overruns, and (3) insufficient local contributions. The Authority had repaid its earlier bank loan and had obtained another loan to help finance its operations.

In 1970 the Authority entered into agreements for financial support from the nine counties. The agreements, however, did not provide for sufficient financial support, and the Authority subsquently had to seek additional financial commitments from the counties, totaling $200,000, to meet its 1970 operating requirements and to eliminate its operating deficit.

The computation of the deficit by the public accounting firm as of December 31, 1970, considered the $200,000 of additional commitments requested from the counties as being available to the Authority. At that time, however, about $104,700 of the $200,000 had not been received and an additional $31,800 of the counties' regular 1970 financial support allocations had not been received. The amount of the 1970 deficit, therefore, was considerably greater than the amount stated in the audit report.

The Authority also entered into agreements for financial support by the counties for 1971; however, two of the agreements--covering three counties--were not signed until late in the year and did not provide for contributions to help finance the December 31, 1970, deficit. The public accounting firm was retained to make an examination of the financial statements of the Authority for the year ended December 31, 1971.

Unless the deficit is fully financed and firm agreements are made for adequate and timely financial support by the counties, the Authority's problem of financial difficulty and uncertainty will continue.

Audit by HUD

HUD examined the books and records of the Authority for the period June 11, 1968, to June 30, 1970, that covered expenditures of about $450,300 made under three HUD grants. Audit findings, as noted in the report issued in December 1970, pointed up the need to

--improve preparation of financial statements,

--improve management policies and practices in certain areas,

--remove ineligible costs from grant accounts,

--obtain better documentation of the cost of services provided by other public bodies,

--improve contracting and accounting for consultant services,

--establish budgetary controls,

--remove from grant accounts costs incurred before and after approved grant periods and unauthorized costs for accrued sick leave and attendance at a housing conference,

--improve control over travel costs, and

--improve procedures relating to miscellaneous accounting matters.

HUD and the Authority agreed on the actions necessary to resolve these findings, and by letter dated June 11, 1971, HUD advised the Authority that all the findings had been resolved.

On a test basis we satisfied ourselves that most of the findings reported by HUD were properly resolved by the Authority. We noted, however, that two of the situations which had pointed up a need to improve management policies and practices in certain areas had not been satisfactorily corrected. One of these situations concerned the need to define the duties, responsibility, and authority of the executive director. The executive director told us that he would prepare an appropriate policy statement on this matter and would submit it for approval to the executive committee. The other situation concerned the need to establish a formal travel policy. A travel policy statement was prepared and submitted to HUD for approval, as required by HUD policy, in January 1972.

Another of HUD's findings concerned the practice of charging to HUD grants a cost factor for accrued sick leave. HUD pointed out that a liability for sick leave existed only in the event of illness and that a sick-leave cost should be

charged to the grants only when sick leave is used. HUD's audit report included the recommendation that the Authority reduce the costs charged to its grants to reflect only the leave actually taken. According to HUD's audit report, Authority officials agreed with the audit finding and indicated that the practice would be discontinued.

At the time of our review, however, the practice had not been discontinued. In a memorandum dated December 22, 1971, the finance officer advised us that effective December 31, 1971, the Authority would cease its practice of accruing sick leave. As of January 31, 1972, however, no decision had been made regarding possible adjustment to be made for accrued sick leave costs charged to grants prior to December 31, 1971. An Authority official told us that the resolution of this matter was being worked out with HUD.

MATTERS FOR CONSIDERATION IN AUDITS OF FEDERAL GRANTS

The Authority's executive director informed us that in 1972 the Environmental Protection Agency, the Department of Transportation, and HUD were expected to audit Authority records relating to their grants. To minimize disruption of Authority operations and to save audit time and costs, it may be appropriate to assign responsibility for future audits of the Authority's Federal grants to a single Federal audit group.

We believe that, in the audit of the grants received by the Authority from two of the Federal agencies, the following matters should be specifically considered.

Environmental Protection Agency

The work to be performed under a grant for phase I of a solid waste study, originally awarded to the Authority by the Department of Health, Education, and Welfare and now under the jurisdiction of the Environmental Protection Agency, was completed December 31, 1970. The grant had not been audited at the time of our review. The Authority had received about $6,700 more than it was entitled to for this grant. According to the executive director, this occurred because his predecessor requisitioned more Federal money than was actually expended.

We noted also that the grant may have been inappropriately charged with about $2,000, mostly for salary costs in January 1971, after the grant period ended. In addition, about $1,200 had been charged to the follow-on grant for phase II of this study. The Authority, however, has requested cancellation of this grant. The final disposition of these charges had not been determined by the Authority as of January 31, 1972.

Department of Transportation

One of the grants awarded by the Department of Transportation for a short-range and long-range study of mass transit in the Cincinnati area was charged with about $925 in costs that were incurred before the grant was awarded. An adjustment was made for part of this charge by the public accounting firm. The Authority's finance officer told us that similar-type costs were also charged to another Department of Transportation grant.

CHAPTER 4

OTHER MATTERS

EXAMINATION OF EXPENDITURES

We examined the propriety of in-house cost recorded in the Authority's accounting records for the months of April and July 1971. Although these costs, totaling about $28,600, generally represented valid expenditures, we found accounting errors, inconsistencies, and documentation inadequacies which, when considered in total, pointed up a need for the Authority to provide its accounting personnel with written policies and procedures for recording financial transactions. The Authority's finance officer informed us that a manual was being prepared to provide accounting guidance.

We also examined payments totaling about $187,500 made to three consultants. We found that the Authority had contracted with the three counsultants for certain specified work, that the contracts appeared to be in accordance with the provisions of the governing Federal grants, and that the billings received and paid by the Authority appeared to have been submitted in accordance with the terms of the contracts.

CONTROL OF GRANT COSTS

Because of various financial difficulties that had been encountered by the Authority, including cost overruns under Federal grants that had to be absorbed by local funds, the finance committee, in October 1970, required the Authority to provide it with individual project status reports on all Federal grants. The reports on the HUD grants included a breakdown showing the cost and work status of each of the major work areas of the grant. The project status reports for grants received from other Federal agencies, however, did not include similar breakdowns by major work areas. To improve control over costs incurred under Federal grants, we suggested that cost breakdowns similar to those provided for the HUD grants be provided for all future Federal grants. The executive director agreed to do this.

Contracts awarded to consultants generally include a breakdown of work elements to be accomplished. The work elements generally follow the objectives of the Federal grant under which the contract is awarded. The billings submitted by consultants for periodic progress payments, however, varied significantly as to the amount and type of detailed information provided, and the amount billed was not broken down according to the progress made on specific work elements or in major work areas.

To provide a better basis for monitoring contracts, assessing work progress, and making decisions as to whether audits of contracts costs should be made, we suggested that future contracts (1) identify the major areas or elements of the work contracted for and (2) require that progress billings include information relating the amount billed to the cost incurred and status of the contract's major work areas or elements. The executive director agreed with our suggestion and stated that this type of documentation will be required on all future consultant contracts.

PRINTING AND DISTRIBUTION OF REPORTS

Over 20,000 copies of reports have been printed on the activities carried out by the Planning Group and by the Authority at an estimated cost of $152,900. Little or no control existed, however, over the number of copies printed or distributed. For example, about 2,000 copies of one report were printed but only 500 were distributed. For two other reports, 2,800 copies were printed but only 300 were distributed. We suggested that the Authority determine in advance those who should receive a planned report and control the printing and distribution of the report accordingly. The executive director agreed to do this.

CONTROL OVER ISSUANCE OF POLICY GUIDANCE DOCUMENTS

We encountered difficulty in determining what the Authority's policies and procedures were for various recurring operations. In many instances extensive searches of the minutes of committee meetings had to be made to determine governing policies. Some of the policy statements that were available showed no effective date, did not indicate whether they superseded previous statements, and did not

indicate whether the policy had been approved by the executive committee. We suggested that the Authority establish an appropriate control over all policy and procedural statements. The executive director had taken steps in line with our suggestion.

CHAPTER 5

SCOPE

We conducted our review principally at the offices of the Authority in Cincinnati, Ohio. Our review included an examination of pertinent contracts, minutes of meetings, correspondence, accounting records, reports, and publications relating to the activities of the Planning Group and the Authority. We reviewed the results of audits made of Planning Group and Authority expenditures by a public accounting firm, the Ohio State Auditor, the Ohio and Kentucky highway departments, DCAA, and HUD. Also we made a selective examination of certain in-house costs and contract billings.

In addition to having discussions with officials of the Planning Group and the Authority, we visited or contacted officials of the following organizations and discussed with them various financial, contract, or audit matters relating to the operations of the Planning Group and the Authority.

Organization

Hamilton County Regional Planning Commission	Cincinnati, Ohio
Ohio highway department	Columbus, Ohio
Kentucky highway department	Frankfort, Kentucky
Indiana highway department	Indianapolis, Indiana
FHWA division offices	Columbus, Ohio Frankfort, Kentucky Indianapolis, Indiana
Northern Kentucky Area Planning Commission	Newport, Kentucky
Kentucky Program Development Office	Frankfort, Kentucky
Boone County Planning Commission	Florence, Kentucky
DCAA	Atlanta, Georgia
HUD regional offices	Chicago, Illinois Atlanta, Georgia
Environmental Protection Agency branch office	Cincinnati, Ohio

FHWA headquarters	Washington, D.C.
Environmental Protection Agency headquarters	Washington, D.C.
HUD headquarters	Washington, D.C.

APPENDIXES

Congress of the United States
House of Representatives
Washington, D.C. 20515

June 4, 1971

The Honorable Elmer B. Staats
Comptroller General of the United States
General Accounting Office
441 G Street
Washington, D.C. 20548

Dear Mr. Comptroller General:

During the past seven years, the Ohio-Kentucky-Indiana Regional Planning Authority (OKI), which is a tri-state planning authority located in the Greater Cincinnati Area, has received large sums of federal assistance from various federal agencies.

In our community, there has been recent criticism over the auditing procedures, which have been instituted primarily by the news media.

As Representatives from the First and Second Districts of Ohio, we both have been unable to learn from the federal agencies exactly how much money has been funneled into this planning authority.

It is our understanding that the Cincinnati Regional Office of the General Accounting Office is considering a preliminary survey to see if a full-scale audit is necessary.

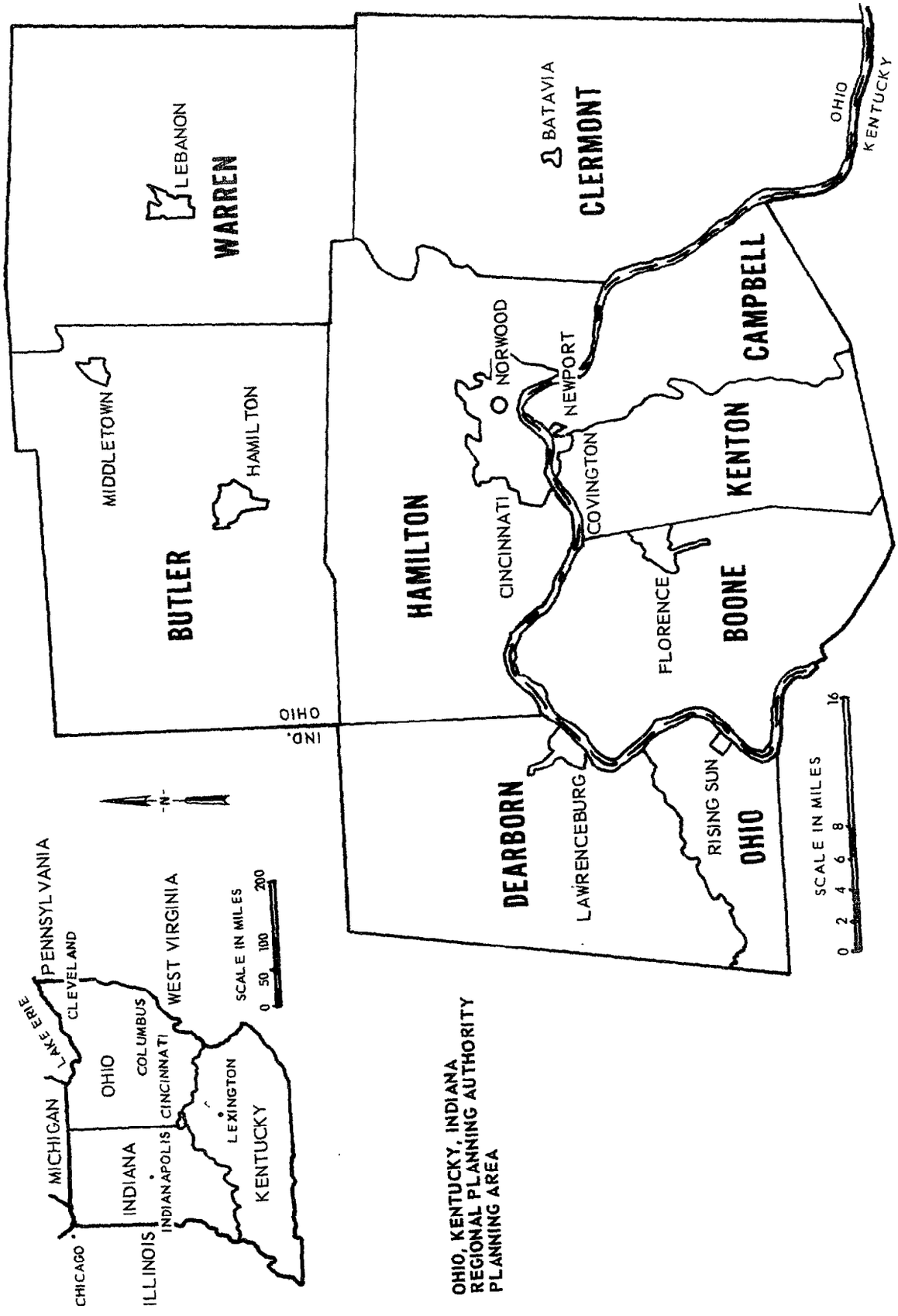
We believe it would be in the best public interest to have the General Accounting Office review this matter thoroughly and report its findings to us as soon as possible.

Yours very truly,

Donald D. Clancy
U.S. Representative, 2nd District

William J. Keating
U.S. Representative, 1st District

WJK:rhg



OHIO, KENTUCKY, INDIANA
REGIONAL PLANNING AUTHORITY
PLANNING AREA

SOURCE OF FUNDS AND COSTS OF

OHIO-KENTUCKY-INDIANA REGIONAL TRANSPORTATION

AND DEVELOPMENT PLAN

AS OF DECEMBER 31, 1971

Development phase	Grant number and period
Federal Funds provided by HUD to develop a regional transportation and development plan	
To:	
Northern Kentucky Area Planning Commission for Kenton and Campbell Counties, Kentucky	Kentucky P-28 7-10-64 to 7-31-69
Kentucky Program Development Office for Boone County, Kentucky	Kentucky P-54 1-17-69 to 4-18-69
Hamilton County Regional Planning Commission for Hamilton, Warren, Butler, and Clermont Counties, Ohio, and Dearborn and Ohio Counties, Indiana	Ohio P-62 6-30-64 to 7-31-69
Total	
Transportation phase	
Federal Funds provided by FHWA to coordinate in the preparation of the regional transportation and development plan	
To:	
Ohio highway department	2-19-64 to present
Kentucky highway department	2-19-64 to present
Indiana highway department	2-19-64 to present
Total	
Total regional transportation and development plan	

[a]This is the maximum amount of Federal funds not yet requisitioned. This may be somewhat less pending resolution of any findings that might affect the approved project expenditures as a result of the audit in December 1971, which has not been finalized.

[b]This excludes $2,900 retained by HUD for project inspection fees.

[c]This includes $91,700 for retainer not yet invoiced by the consultant for phase I and phase II and $76,300 to complete work of the Planning Group.

Approved		Project costs			Federal funds	
Project cost	Federal funds	To date	Estimated additional	Total	Received to date	Estimated additional
$155,900	$103,300	$ 166,700	$ -	$ 166,700	$ 103,300	$ -
9,400	7,200	25,200	-	25,200	7,200	-
821,700	545,500	798,700	-	798,700	490,800	39,700[a]
$987,000	$656,000[b]	990,600	-	990,600	601,300[b]	39,700
		1,661,700	120,500	1,782,200	1,164,600	210,100
		415,000	44,500	459,500	314,500	38,400
		27,700	3,000	30,700	19,500	2,600
		2,104,400	168,000[c]	2,272,400	1,498,600	251,100[d]
		$3,095,000	$168,000	$3,263,000	$2,099,900	$290,800

[d]This includes $71,600 applicable to the consultant's retainer and $124,200 applicable to invoices for costs through December 31, 1971, which have not been processed by the State highway departments and $55,300 applicable to the cost to complete the activities of the Planning Group.

FEDERAL GRANTS MADE TO

OHIO-KENTUCKY-INDIANA REGIONAL PLANNING AUTHORITY

AS OF DECEMBER 31, 1971

Grantor and purpose	Grant number and period
DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE:	
To prepare an inventory of solid waste collection, processing, and disposal facilities and practices in the nine-county area.	49-01 Phase I[a] 7- 1-69 to 12-31-70
ENVIRONMENTAL PROTECTION AGENCY:	
To prepare a regional solid waste management plan.	49-02 Phase II[b] 11- 1-71 to 5-31-73
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:	
To prepare inventory of water and sewage facilities in the nine-county area (phase I).	Ohio P-223 6-19-68 to 11-30-69
To begin housing element studies; perform areawide agency review of applications for Federal assistance; plan and program for water and sewer facilities (phase II); provide "seed money" for Authority operations.	Ohio P-245 4-17-69 to 12-31-70
To prepare a regional water and sewer plan (phase III); perform areawide agency review of applications for Federal assistance; develop data base for regional information system; continue work on housing element studies; summarize all separate functional planning elements and integrate them into a comprehensive regional plan.	Ohio P-271 6- 1-70 to 11-30-71
To provide free legal advice to low-income families and nonprofit organizations on the building and rehabilitation of housing.	Ohio P-282[c] 6- 1-70 to 11-15-71
To prepare a regional open space plan; perform areawide agency review of applications for Federal assistance; continue developing a data base for regional information system; continue work on housing element studies; continue integrating various elements into a comprehensive regional plan.	Ohio P-291 6- 1-71 to 5-31-72
To continue Ohio Grant P-282.	Ohio P-295[c] 6-30-71 to 6-29-72
DEPARTMENT OF TRANSPORTATION:	
To provide for a short-range and a long-range study of mass transit into the Cincinnati area.	Mass Transit 214 4-17-70 to 7-28-72
To demonstrate more effective means of attacking peak-hour traffic congestion in urban areas.	Urban Corridor 7556 6-26-70 to 9-30-71
Total	

[a] Grant 49-01 was awarded by the Bureau of Solid Waste Management, Environmental Health Service, Department of Health, Education, and Welfare, which was transferred to the Environmental Protection Agency, Dec. 2, 1970. Federal funds were limited to 50 percent of the project expenditures or $82,200.

[b] The Authority requested cancellation of the phase II grant on Dec. 27, 1971, because the nine counties refused to provide the local matching funds. They plan to return the $6,700 excess funds received on phase I and to charge the $1,200 costs incurred on phase II to the Authority account.

Approved		Project Costs			Federal funds	
Project cost	Federal funds	To date	Estimated additional	Total	Received to date	Estimated additional
$177,800	$ 88,900	$ 164,400	$ -	$ 164,400	$ 88,900	$ -
120,000	83,300	1,200	-	1,200	-	-
112,200	74,300	116,800	-	116,800	74,300	-
267,300	144,100	332,500	-	332,500	144,100	-
270,000	178,400	272,900	-	272,900	160,400	18,000
1,500	1,000	2,000	-	2,000	1,000	-
270,000	178,500	107,500	162,500	270,000	24,300	154,200
1,500	1,000	100	1,400	1,500	-	1,000
321,000	214,000	242,100	78,900	321,000	128,900	85,100
216,600	216,600	213,300	-	213,300	179,700	33,600
$1,757,900	$1,180,100[d]	$1,452,800	$242,800	$1,695,600	$801,600[d]	$291,900[e]

[c] The Authority is receiving an administrative fee only as the sponsor for the local unit of the American Bar Association who receives the remainder of the grant.

[d] Excludes $4,500 retained by HUD for project inspection fees.

[e] This includes $130,000 earned but not yet received at Dec. 31, 1971, and $161,900 needed to complete the projects in 1972.