



COMPTROLLER GENERAL OF THE UNITED STATES

WASHINGTON, D.C. 20548

B-118638

The Honorable Lawton Chiles
Chairman, Subcommittee on the
District of Columbia
Committee on Appropriations
United States Senate

Dear Mr. Chairman:

As requested we are reporting on financial management weaknesses in the District of Columbia's Office of Youth Opportunity Services. We testified about these weaknesses before your Subcommittee on February 19, 1976. The report also contains the Office Director's statement, issued in response to our testimony, and our analysis of his statement. This data should place the issues in perspective and emphasize the need for the District to take immediate steps to correct its seriously deficient financial management.

One major Office of Youth Opportunity Services program provides employment opportunities for young people during the summer. The program is financed by funds appropriated for the District and by Federal grant funds. Each summer about 15,000 youths participate. In 1974 and 1975 the Office spent about \$7 million to \$8 million for the program.

Financial management must be effective to insure that the youths selected are eligible and that funds are controlled, which will insure that funds are spent in accordance with prescribed laws, policies, regulations, and procedures. The Office of Youth Opportunity Services failed to do this by

- knowingly accepting ineligible youths into the summer employment program and misapplying \$1.3 million of the 1974 program funds;
- holding thousands of unclaimed paychecks, amounting to about half a million dollars, for extended periods instead of returning them to central accounting for cancellation;
- not maintaining orderly files to permit verification of the propriety of payments to youths in the program; and
- paying several youths for more hours than they actually worked. Time and attendance forms were altered to allow such payments.

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In addition to the summer employment program, the Office sponsored or operated other programs, free of charge, for District youths including medical, dental, legal, and counseling services; recreational activities; and schooling. The Office administered the finances of these activities poorly in that it

- overobligated appropriated funds totaling \$30,000 and \$132,000 during fiscal years 1973 and 1974, respectively--unreported violations of the Anti-Deficiency Act (31 U.S.C. 665);
- did not effectively control the use of grant funds received from the Department of Health, Education, and Welfare and the Department of Labor and used part of the funds from each for unauthorized purposes; and
- had 48 permanent positions filled in fiscal year 1974, but the Congress authorized only 28.

The day after our appearance before your Subcommittee, the Director of the Office of Youth Opportunity Services issued a statement to the press that severely criticized our testimony. He called it inaccurate, untrue, and not indicating actual mismanagement of funds.

The following examples show the severity of the financial management weaknesses that need to be corrected. Appendix II includes a discussion of all the weaknesses disclosed by our review.

INELIGIBLE YOUTHS KNOWINGLY
ENROLLED IN SUMMER EMPLOYMENT PROGRAM

Statutory regulations required enrollees to be disadvantaged youths. The Department of Labor specifically denied a request from the Office to waive this statutory requirement. Yet, the Office enrolled about 3,000 ineligible youths in the program and charged the \$1.3 million expenditures for these nondisadvantaged youths to grant funds.

The Director said our statement was false because preliminary discussions with the Department of Labor indicated that nondisadvantaged youths would be eligible and that money was anticipated to be received for the summer employment program. But, Labor later specifically told the Director not to enroll nondisadvantaged youths as required by title III of the

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Comprehensive Employment and Training Act of 1973. The Director violated the statutory regulations by knowingly enrolling ineligible youths in the program. By so doing the Director may have violated the criminal provisions (18 U.S.C. 665(a)) prohibiting the willful misapplication of Comprehensive Employment and Training Act funds.

The Director said the 3,000 youths were classified as "near poverty": just above the poverty line of \$5,050 for a family of four. A limited review by Labor in July 1974 showed that some of the ineligible youths came from families whose annual incomes ranged from \$5,988 to \$44,824. The average was about \$17,000.

THOUSANDS OF UNCLAIMED PAYCHECKS
HELD FOR EXTENDED PERIODS
AND NOT RETURNED FOR CANCELLATION

The Director said our statement was false--that the checks were held for a reasonable time so the Office would have the opportunity to locate the youths and thereby avoid a 6 to 8 week delay to get new checks prepared. Many of the unclaimed checks were for \$75 to \$100 and as much as \$320, contrary to the Director's statement that they were for only \$20. In September 1974 we found a batch of 59 checks at one worksite that were issued a year earlier. The Director stated they had been turned in and the records rectified. Contrary to the Director's statement, as late as March 1, 1976, the unclaimed checks had not been voided--they were still onhand at the worksite. Checks had been there for 2-1/2 years.

Since the Office had inadequate controls to account for checks issued, unauthorized persons might have cashed them and all of the unclaimed checks might not have been returned and voided.

TIME AND ATTENDANCE RECORDS
ALTERED WITHOUT AUTHORIZATION

Time and attendance records prepared by two worksite supervisors during the 1973 summer employment program were altered by the Office without the supervisors' knowledge. The hours worked were increased for 74 young people; the resultant payments were increased by \$1,075.77.

The Director said that particular care was taken to assure that no youngsters were paid for hours not worked.

He said that all time sheets were verified at two levels, by the site supervisor and the Office of Youth Opportunity Services monitor supervisor, and that the alterations were appropriate. But, at 2 worksites the supervisors said they were not contacted by the Office. The records at the worksites showed that the 74 youths did not work the additional hours.

We do not know how many time and attendance reports were altered, but the Director stated that some 40 college students used as monitors "* * * were frequently required to make these adjustments," because site supervisors often made errors in recording time. The Deputy Director of the Office said that he did not have the names of the monitors used in the 1973 summer employment program. Therefore, we could not determine from the monitors why they altered time and attendance reports. Were the adjustments proper? We think not. The youths signified their acceptance of the hours worked by initialing the official time record forms prepared at the worksites.

The data in appendix I demonstrates that our testimony was accurate and that the financial controls maintained by the Office are very poor. A real need exists for the Office to improve its financial management. Unless the problems are recognized, efforts probably will not be made to correct the deficiencies. The weaknesses must be corrected to avoid spending funds for unauthorized purposes and to effectively manage the youth activities.

Because the Office of Youth Opportunity Services reports to the Mayor, we recommend that the Mayor establish an effective financial management system for Office activities that will insure that:

1. Obligations be incurred only for authorized purposes and only after the funding authority has been received.
2. Accurate time and attendance reports be prepared and properly certified to insure that persons are paid only for hours worked.
3. Only eligible youths be enrolled in the summer employment programs.
4. Accurate and properly prepared documents be maintained and appropriately filed to support all payments.

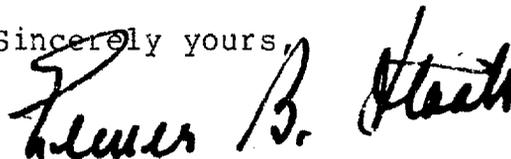
5. Necessary deductions, such as for Federal Insurance Contribution Act taxes, be made from payment vouchers and the checks prepared for correct amounts.
6. The practice of using grant funds for one purpose and later switching those charges to other available funds be discontinued.
7. Funds not be used for permanent positions that have not been authorized by the Congress.
8. Overobligations of appropriated funds be reported immediately to the President and to the Congress with a statement of the action taken as required by 31 U.S.C. 665.

We recommend also that the Mayor require the Office of Municipal Audits and Inspection to periodically review Office of Youth Opportunity Services activities to ascertain that the financial policies and procedures are adhered to and that appropriate administrative measures are taken if violations occur.

This report contains recommendations to the Mayor on pages 4 and 5. As you know, section 736 of the District of Columbia Self-Government and Governmental Reorganization Act requires the Mayor, within 90 days after receipt of an audit from the Comptroller General, to state in writing to the District's City Council, with a copy to the Congress, what has been done to comply with the recommendations made by the Comptroller General. We will be in touch with your office in the near future to arrange for copies of this report to be sent to the Mayor to set in motion the requirements of section 736.

As requested by your office, we have not obtained the District's comments on this report.

Sincerely yours,



Comptroller General
of the United States

OUR FINDINGS, OFFICE OF YOUTH OPPORTUNITY SERVICESDIRECTOR'S STATEMENT, AND OUR COMMENTSOUR FINDING

Ineligible youths were knowingly accepted into the 1974 summer employment program.

Office of Youth Opportunity Services (OYOS) statement

"This is not true. The youths that G.A.O. claims were ineligible were 3,000 youths who were classified as near poverty-just above the poverty line. \$5,050 for a family of four. This particular class of youths were authorized to be hired in the 1973 program. Preliminary discussions with the Labor Department indicate that non-poverty youth could also be hired again in 1974. At the time this agreement was made it was anticipated that the money would be coming from the section of the Comprehensive Employment and Training Act. Title I of that act authorizes the hiring of non-poverty youths.

"Congress subsequently appropriate[d] the money under another title which indicated that only poverty youths could be hired. The Labor Department then informed the D.C. Government of the fund restrictions. But by that time 3,000 youths had already been enrolled, promised jobs, were ready to go to work, and in some cases, already working. It was decided that in the best interest of the youth and of the City that these needy young people should not be terminated because of this technicality."

Our comment

In a letter dated June 7, 1974, OYOS requested the Department of Labor to waive Comprehensive Employment and Training Act (CETA) requirements to allow up to 20 percent of the enrollees to be "* * * non-income restricted."

The Department of Labor formally denied the request on June 20, 1974, only 1 day after any of the youths started work. Practically all of the improper charges occurred after OYOS was notified that the nonpoverty youths were not eligible. For example, OYOS analysis of when improper charges were made showed:

<u>1974 pay periods</u>	<u>Nonpoverty youths</u>	<u>Improper charges</u>
6/19 to 6/30	2,469	\$ 142,261
7/1 to 8/31	3,079	<u>1,188,605</u>
Total		<u>\$1,330,866</u>

In its June 20 letter denying the request for waiver, Labor stated that "* * * the potential does exist for * * *" a summer program, similar to the previous year's program, that would permit service to nondisadvantaged youths. No commitment was made and no funds were provided. In mid-July, Labor again brought the improper payments to the attention of OYOS when it informed the District that it had observed ineligible youths in the program and requested that all improper charges be determined.

Further, the ineligible payments were not made only to youths near the poverty level as the Director stated. They were (1) near and (2) above the poverty income levels. The limited review made by Labor in July 1974 showed that some of the ineligible youths came from families whose annual incomes ranged from \$5,988 to \$44,824. The average was about \$17,000.

OYOS statement

"It then became incumbent upon the District of Columbia Government to use all of its resources to insure that these young people would not have to be severed from the payroll. Negotiations began immediately to identify available funds both within the D.C. Government and outside that would pay the estimated \$1.3 million for the near poverty youth.

"The Department of Labor examined the various acts and found that there were sufficient funds authorized under the [Comprehensive Employment and Training] Act which would allow their employment and not violate any law."

Our comment

By August 31, 1974, \$1.3 million had been improperly charged to the CETA grant. Labor did not identify sufficient alternative funds until January 1975 when, in a meeting with OYOS and other District officials, it agreed to allow the District to charge the ineligible enrollee costs to other Labor grants. One grant awarded on September 26, 1974, was for a different purpose and only for economically disadvantaged

people. Furthermore, because money was not available to aid all the eligible disadvantaged people, the grant was expected to cover only about 15 percent (20,550) of the estimated 137,000 disadvantaged people needing assistance. Nevertheless, Labor amended the September 1974 grant to allow \$1.2 million of the retroactive charges for the nondisadvantaged youths when 85 percent of the eligible disadvantaged people had not been accommodated. The other \$142,000 was switched from CETA to the Emergency Employment Act, which allowed enrollment of nondisadvantaged youths.

In order to switch the improper charges retroactively to the September 1974 grant, Labor increased the funds and had to change the grant conditions. Labor did not approve the change until May 1975.

According to Labor officials, such action was authorized by the statutes. However, the Labor and Health, Education, and Welfare Subcommittee, Senate Committee on Appropriations, stated in its report on Labor's fiscal year 1977 appropriation:

"The Committee wants to make plain that it is the Department's responsibility to ensure that funds are applied to the purposes for which they are appropriated, and that when prime sponsors do not use them, it is the Department's function to recover the funds—not to condone misuse or to assist the prime sponsor in making paper changes to cover up the misapplication."

OYOS statement

"This joint effort on the part of the Federal and District Government illustrated how government can serve young people when there is a will. There was no violation of any statute. However, the G.A.O. itself would lead the general public to believe that there were gross violations."

Our comment

The joint effort of Labor and the District illustrates highly questionable management of Federal funds. Over about 2-1/2 months OYOS committed the Government to improperly pay 3,000 youths and, therefore, violated statutory regulations. OYOS may also have violated criminal law which prohibits the willful misapplication of funds. The OYOS statement reinforces our feeling that the actions were intentional.

On June 20, 1974, Labor denied an OYOS request to hire nondisadvantaged youths, but OYOS continued to charge to Labor grants the funds for ineligible youths until August 31, 1974, the last date of the program. Labor's actions in making funds and authority available to retroactively pay improper charges incurred 8 to 11 months earlier were injudicious. This sanctioned a serious financial irregularity--an administrator incurring liabilities against the Government without assurance that funds would be available to pay them. Such practice is contrary to congressional mandates that a control system be established to prevent overexpenditure of funds.

OUR FINDING

Thousands of unclaimed paychecks were being held for extended periods without being returned for cancellation.

OYOS statement

"This is not true. In 1973 the Office of Youth Opportunity Services experimented with a new pay procedure which was designed to alleviate the problem of youngsters having to wait 4-6 weeks for their first check and to provide them with a small amount of money at the end of their first 2-week work period.

"As you know, working for the Federal Government, it would take somewhere between 3-4 weeks before an employee receives his first check.

"There was great concern by the youth of the city that they could not wait this long for their first check and they needed money for transportation and for lunch and other expenses in order to get back and forth to work.

"In order to solve this problem, the Office of Youth Opportunity Services would register a youngster and once on the register, would pre-cut [write in advance] a \$20.00 check. This \$20.00 check would be held until the youth's first time sheet was submitted. Once the youth's time sheet was submitted, it was matched up with the pre-cut check and issued to the youths rather than having to wait 3-4 weeks. This pre-cut check which amounted to approximately \$20.00 would provide them with sufficient money for transportation and other expenses until the full check was received. So, in fact this enabled the Office for the first pay period to solve the problem of the 3 week wait.

"Some of the youths who registered for jobs and who were put on payroll, however did not report for work, but a check was pre-cut for them just in case they did. In instances where they did not work, they were not issued a check; the check was held and eventually cancelled.

"There were approximately \$480,000 worth of pre-cut checks that were not issued to the would be worker because he failed to report for work. These pre-cut checks were eventually returned and cancelled. These pre-cut checks were not out in the field, they were properly secured in the Office of Youth Opportunity Services' safe."

Our comment

These checks were for payments to youths in the 1973 summer employment program from June 1973 to about September 1973. OYOS sent checks in groups from sites throughout the city to central accounting for voiding over an 11-month period, August 1973 to June 1974. Checks were not for only about \$20 as the Director stated; they were generally about \$75 to \$100 and as much as \$320. Although the Director said checks were placed in a safe in the OYOS office, in September 1974 we saw many undelivered checks for the 1974 program in open boxes on a table in the office during business hours. The checks were accessible to various employees and visitors who frequented the office.

OYOS statement

"GAO states in its report that approximately 59 checks were being held at a work site.

"This office issued guidelines about returned checks. These checks may have been held longer than anticipated but they were turned in and the records were rectified. The explanation given to us by the worksite supervisor for holding the checks was that the youths had to have ample time to pick them up.

"GAO was given a satisfactory explanation--the one stated above--and all checks were properly issued."

Our comment

These checks had been issued in August and September 1973 and we saw them at the worksite in September 1974.

Contrary to the Director's statement on February 20, 1976, that the checks, " * * * were turned in and the records were rectified," as late as March 1, 1976, the unclaimed checks had not been voided. They were still at the worksite.

We requested written program guidelines about returned checks, but none were available. In March 1976 we asked for the guidelines that were issued to worksites about returned checks payable to enrollees; however, on March 18, 1976, the OYOS Director acknowledged that the guidelines could not be located.

The explanation for holding the checks--to give youths " * * * ample time to pick them up"--is not a satisfactory explanation. Holding the checks for 2-1/2 years for the apparently needy youths to pick up is unreasonable.

Many checks were written by the District and unclaimed by the youths in the 1974 and 1975 summer employment programs. Some of the individual checks were for \$100 to \$200 and were held by OYOS for 2 to 8 months before they were sent back for voiding.

OYOS statement

"GAO indicated also that the Office of Youth Opportunity Services was negligent in handling of Government funds by not having the checks promptly voided when payees could not be located. GAO thoroughly does not understand the nature of the summer program for if it did, it would not have made this statement.

"Check[s] often were held a reasonable length of time to insure that there was ample opportunity to locate the worker, after the summer program was over and also during the summer and particularly with inner city youths, there is a tendency to move, leave the city for various reasons. If the cancelled checks were returned and a youth showed up it would take 6-8 weeks to get a check redone. It was felt in the best interest of the youth and since the checks were safeguarded, held by Youth Opportunity Services there was no danger to the government in losing this money."

Our comment

We do not object to holding checks for a reasonable length of time, but holding unclaimed checks for several months to 2-1/2 years is not a reasonable length of time. Furthermore, checks were not adequately safeguarded.

OYOS had not adequately implemented controls to account for all checks issued. Undeliverable checks might have been cashed by unauthorized persons and might not have been returned for voiding. This deficiency was confirmed by a March 25, 1975, letter from a worksite official returning two checks dated August 16, 1974, which were "* * * found in the area, * * *."

A well established principle of cash management is that when checks are not deliverable to bonafide payees, they must be promptly voided. The District's own regulations require its agencies to return such checks within 48 hours after receipt to the District's Treasury Division. The United States Treasury Department requires that checks be returned within 5 days.

OYOS was negligent in its handling of Government checks.

OUR FINDING

The state of the files was such that we could not verify the propriety of payments made to 70 of 272 youths included in our sample.

OYOS statement

"The Office of Youth Opportunity Services' responsibility in the area of maintaining records included the processing of the various forms and forwarding them to the central account system. Central accounting processed the payroll and maintained all records. The Office of Youth Opportunity Services was not required to maintain the same records as central accounting. It has not yet been determined whether the records were not actually at the Central Accounting Office or whether G.A.O. failed to look diligently to see if they were there."

Our comment

The D.C. Personnel Office delegated to OYOS authority to appoint and release temporary employees, including the youths under the summer employment programs. OYOS was, then, responsible for establishing and maintaining the official personnel records, including personnel action forms, eligibility certification forms, and (we were told) the time and attendance reports. When OYOS could not provide the supporting payment documents such as personnel action forms and time and attendance records, we asked the central accounting office for them.

We were led to a warehouse where the records were stored. The records were in boxes, but they were not stored in any logical manner. Many District agencies' records were commingled. Identifying and reviewing the records of the youths in question would have been almost impossible and would have required an inordinate amount of time. We made a diligent effort to locate the records. The statutes require agency officials to maintain orderly and complete files on financial transactions so that documentary support for payments from public funds can be readily examined by representatives of the Comptroller General and the public.

OUR FINDING

A number of youths were paid for hours not worked.

OYOS statement

"Actually, particular care was taken to assure that no youngsters were paid for hours not worked. All time sheets were verified at two levels of supervision, the site supervisor and the OYOS monitor supervisor.

"GAO cites as an example, that time and attendance records were altered by the office without the supervisor's knowledge increasing the number of hours worked and resulted in payments to seventy-four (74) youths by \$1,075.77. The alterations were both appropriate and proper, following established procedures to resolve disputes between the field supervisor's recordation of work hours and the youth worker's. The monitor supervisors of OYOS staff were authorized to investigate the dispute and where necessary make the proper adjustments on the time sheet. In many instances, the field site supervisor[s] who are for the most part volunteers working in private agencies oftentimes error in recording time. There had to be some mechanism for adjustments and to safeguard the right of the youth employed, so some forty (40) college students are utilized for this purpose during the summer program and were frequently required to make these adjustments."

Our comment

In August 1973, OYOS headquarters advised the worksites that the youths could work an additional 5 hours a week for the remaining two pay periods in the program. An OYOS headquarters official said that when the time and attendance reports were submitted by the youths' supervisors and the reports did not show the 5 additional hours, OYOS headquarters increased the number of hours worked. The official said OYOS

contacted the youths' supervisors to confirm that they worked the additional hours. But at two of the worksites visited, the supervisors said they were not contacted by OYOS; and, the records at the worksites showed that the 74 youths did not work the additional hours. The records should not have been altered.

We do not know how many time and attendance reports were altered, but OYOS stated that some 40 college students used as monitors " * * * were frequently required to make these adjustments," because site supervisors often made errors in recording time. The Deputy Director, OYOS, said he did not have the names of the monitors used in the 1973 summer employment program. Therefore, we could not determine from the monitors why they altered the reports. Were the adjustments proper? We think not. The youths signified their acceptance of the hours worked by initialing the official time record forms prepared at the worksites.

The facts concerning some of the unclaimed checks also raise doubts about the effectiveness of the " * * * particular care * * * taken to assure that no youngsters were paid for hours not worked * * *" and about the accuracy of the verification of time sheets at the two levels of supervision. In the batch of 59 unclaimed checks kept for 2-1/2 years were 30 checks made out to 10 different youths for 3 consecutive pay periods--July 22 through August 24, 1973. The first checks were all dated August 17 and the next two checks for each employee were dated August 31 and September 14. If the youths were in fact working during this period of over 30 days, would not the supervisors have known the employees' whereabouts and delivered at least the first checks to them? Were the employees actually at work? Were the time and attendance reports accurate? Were the certifications of time worked valid?

Another example which demonstrates the need to answer such questions involved a Lorton inmate who had been assigned to a prerelease community correctional center. The inmate was accepted in the 1973 summer youth employment program, but he failed to show up for work after 5 or 6 days. Nevertheless, pay checks were issued for the next two pay periods covering 90 hours. According to the correctional center records, the inmate did not work during that period.

OYOS statement

"GAO also indicates that they noted eight (8) other instances where youth were paid a total of \$184.00, more than what they should have been based on the number of hours

the youths signed for on their time and attendance reports. To emphasize again, how this report is slanted and biased one can see if you were to divide 8 into 184 each youngster would have received an overpayment of approximately \$23.00. It is a well established fact that human error may in some instances cause an overpayment to employees. Where this error is discovered, there are several options open to rectifying it:

- 1) The employer may have the amount of dollars deducted from his check.
- 2) He could be required to return the money.
- 3) He could be allowed to work this off in additional hours.

It should be noted that GAO located 8 overpayments out of some 16,000 checks being issued in one pay period, which is .0005%, and to further project, this would be 8 checks out of 64,000 checks issued over one summer."

Our comment

In addition to the 82 overpayments (74 plus 8--not only 8) reported earlier, 17 youths at 2 worksites were overpaid in the recent 1975 summer program. Although OYOS cited 3 options available for rectifying overpayments, OYOS did not use any of the options or otherwise recover the overpayments from the 17 youths.

Verifying payments to youths was difficult because of the condition of the records--lack of documentary support for the payments. We determined the overpayments by painstakingly matching related documents obtained from several sources and locations. In the absence of systematic filing of supporting documents, we could not obtain and examine a representative sample of payments which would be necessary to make an estimate of the total overpayments.

The lack of properly filed documents to support payments also raises serious questions concerning the adequacy of control over millions of Federal dollars entrusted to OYOS for use in the summer employment programs.

OUR FINDING

The Office neglected to withhold Federal Insurance Contribution Act (FICA) taxes from more than 2,000 paychecks, making the District liable for \$23,000.

OYOS statement

"The Office of Youth Opportunity Services has neither the responsibility nor the duty of cutting checks or withholding FICA taxes. This is the exclusive function of the Central Accounting Office. However, the report would in essence have one to believe that this was mismanagement on the part of the Office of Youth Opportunity Services, when in fact it was not.

"A report from the Central Accounting Office indicated that GAO had been informed that the FICA withholding from the 2,000 pay checks had been taken out on the following pay period."

Our comment

In August, September, and October 1973 the District issued 2,042 payroll checks totaling \$198,395.30 to program youths without withholding FICA taxes. These checks were issued to pay youths who, for one reason or another, did not get their regular paychecks. The special vouchers to pay the youths were prepared by OYOS and submitted to the central accounting office, but OYOS bypassed the payroll and retirement section which determines the FICA withholding. Although these special payroll vouchers were irregularly processed, we agree that the basic responsibility for assuring that the proper taxes are withheld appears to fall on the accounting office.

Concerning corrective action, we were told that the central accounting office report referred to by the Director was wrong and that corrective action had not been taken.

According to a central accounting office official, 662 checks were voided, but as of February 1976 the outstanding FICA tax liability for the special checks still had not been determined or paid.

OUR FINDING

OYOS received monthly reports from the central accounting office on the financial status of their accounts. However, the Office overobligated appropriated funds during fiscal years 1973 and 1974. In addition to not effectively controlling the use of grant funds received from the Department of Health, Education, and Welfare (HEW) and the Department of Labor, the Office used part of the funds from each for unauthorized purposes.

OYOS statement

"Any funds that were overobligated have been rectified or negotiations are presently underway to bring these accounts into balance."

Our comment

The fiscal year 1973 and 1974 congressional appropriations were overobligated by \$30,000 and \$132,000, respectively. The Director's comment concedes that the overobligations occurred. Officials in the District's budget office also agreed that these appropriations were overobligated. Overobligations of appropriated funds violate the Anti-Deficiency Act (31 U.S.C. 665), which subjects the officer or employee to administrative disciplinary actions, fines, and/or imprisonment if the overobligations were knowing and willful. The act also requires the Mayor to immediately report all the pertinent facts of the violations to the President and to the Congress, with a statement of action taken. The District did not comply with the act.

Although it may be possible to negotiate with grantors for changes in the terms and amounts of grant funds, we are not familiar with any procedures that allow negotiation to remove overobligations of appropriated funds.

OYOS statement

"It is a well established fact that in providing services and programs unforeseen costs would be incurred and it would be necessary to make adjustments and to increase the funding base of programs. This is generally done through the modification of contracts, and through the use of appropriated monies including the matching portion of the grant to absorb such costs not covered by the grant."

Our comment

When unforeseen costs are identified after programs are underway, administrators must make sure that either grant or appropriated funds are available to pay the costs before they are incurred. Such procedure provides reasonable assurance that the Government's interest will be protected by preventing overobligation of funds.

OYOS statement

"GAO also indicated that the conditions of the HEW grant specified that the monies were to be used only for personnel

and consultant services to find a center, recruit and hire staff and operate the center.

"It should be noted that there are always start-up costs for new programs. Such start-up costs, as supplies, and equipment renovation and personnel were required prior to actual operation. This cost was necessary in order to use HEW money.

"The non-personnel costs related to the HEW grant were chargeable to the matching portion of the grant and to the Ford Foundation funds allocated to OYOS through the Mayor's Office. HEW performed an intensive audit of this particular grant and, while no official report has ever been submitted to me, I have not been informed by HEW of any irregularities in connection with this grant."

Our comment

Such a program would require starting costs as indicated by OYOS. However, the grant from HEW did not allow such costs to be charged to it, as OYOS did. In an April 1974 letter, HEW informed OYOS of the irregularity and that the costs we questioned could not be charged to the grant.

OYOS statement

"The report also stated that the Department of Labor grant of \$234,000 to the office to help finance operating costs of the D.C. Street Academy during fiscal years 1973 and 1974 was charged with \$46,000 in excess of the grant amount. The D.C. Street Academy is a school operated by the office which is intended to provide education opportunities to disadvantaged school dropouts to enable them to obtain high school diplomas.

"The office cleared the over expenditures from the grant account by transferring them to other accounts and grants, including a switch of \$20,450 to a Department of Labor grant for recreation support. GAO states that this charge appears improper since the D.C. Street Academy is not a recreational activity.

"Here again illustrates the lack of understanding on GAO's part of the functions of the program as it is a well established fact that recreational programs are an integral part of educational programs and almost all schools have some sort of recreational program. The D.C. Street Academy is no different. The Street Academy, during the period stated provided approximately \$20,000 worth of recreational activity in

its facility to include plays, skits, and other learning activity, bringing in smaller children from the community, as such the \$20,000 was properly charged to the RSP grant, because the D.C. Street Academy did in fact provide recreational activities which qualified under the grant."

Our comment

The purpose of the academy is to provide educational opportunities to disadvantaged school dropouts between the ages of 16 and 22 to enable them to attain high school diplomas. The Department of Labor grant of \$245,000 was to operate a recreational support program between June 19, 1972, and September 2, 1972. The program was to provide recreational opportunities for approximately 30,000 disadvantaged youths between the ages of 8 and 13. Although the academy may offer some indirect recreational activities for its students, such recreational costs do not seem proper charges to the recreation grant because the grant applies to a different population group for a different purpose.

Although OYOS switched costs of \$20,450 from the academy grant to the recreation grant, OYOS could not identify what these costs were and when they were incurred. The date the costs were incurred is particularly important because the recreation grant covered only about 2-1/2 months from June 19, 1972, to September 2, 1972.

The problem of overobligation of appropriated funds and excessive charges to grant funds was brought to the attention of District agency heads, including the Director, OYOS, in 1973 and 1974 by memorandums from the Special Assistant to the Mayor for Budget and Financial Management. In reply to the memorandums, the Director, OYOS indicated that action to eliminate the overobligations in 1973 and 1974 had been initiated. However, on February 13, 1976, funds were not available to cover the excessive charges; and, therefore, the accounts still appeared on the books with negative balances as of that date. In addition to the overobligations cited, many other accounts had negative balances in 1973 and 1974. This recurring problem seems to stem from incurring obligations in the absence of available funds. Obligations were made in anticipation of receiving the money. Such a method of managing public funds does not conform with statutory requirements.

OUR FINDING

The Office had 48 permanent positions filled, although only 28 were approved by the Congress.

OYOS statement

"G.A.O. alleges that the Office of Youth Opportunity Services hired 20 permanent positions over the authorized amount by Congress. Here again G.A.O. misrepresents the fact. Congress approved 28 positions by their definitions as permanent. The 20 other positions that G.A.O. alleges were permanent were actually temporary. However, their occupants arrived at a permanent status because they served for more than a year. This is in accord with city-wide and Federal personnel practices."

Our comment

To guide Federal agencies and the District of Columbia Government in complying with congressional personnel ceilings, the Office of Management and Budget issued Circular A-64 defining a permanent position as any position that has been occupied for a year or more, regardless of the intent when the position was established. Conversely, the circular defines a temporary position as one that has been established for a limited period of less than a year and which has not been occupied for more than a year.

The Director acknowledged that the 20 positions were occupied for more than a year. Therefore, he has admitted that the positions were permanent.

OYOS statement

"To keep the occupants of these temporary positions from acquiring permanent status, we would have had to fire each of these 20 persons at the end of a year and hire new people, adversely affecting the efficiency of the program and unfairly treating the employees."

Our comment

The permanent position classification does not depend on how long a specific person fills a position, but on how long the position is filled. If several different employees filled a position continuously for a year or more the position would then become permanent and therefore subject to the permanent position limitation imposed by the Congress.

Firing the employees at the end of the year and hiring new people to fill the same positions would not change the character of the positions--they would still be classified "permanent." Although the positions were occupied for more than a year and some as long as 3 years, OYOS has not obtained

authorization from the Congress to increase the permanent position ceiling.

OYOS statement

"The Office of Youth Opportunity Services normally receives an amount of appropriated funds allocated for grant matching purposes which is used to hire a staff supportive to all its programs. This amount of money is earmarked for 'funds approved by Congress without positions' in the District's accounting system. These positions do not fall in the same category as 'permanent full-time operating positions approved by Congress.' Therefore, the Office of Youth Opportunity Services has not over-filled the number of permanent full-time operating positions approved by Congress."

Our comment

The fiscal year 1974 approved budget authorized 28 permanent and 61 temporary positions. Since the 28 permanent slots and 20 of the temporary slots were fully occupied during the year, at yearend, OYOS had exceeded the permanent position ceiling by 20 positions. The District has no authority to unilaterally declare that certain positions are exempt from congressional ceilings. Earmarking accounting records as "funding approved by Congress without positions" has no legal standing.

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

FOR RELEASE ON DELIVERY
Expected at 10:00 a.m. EST
February 19, 1976

STATEMENT OF
WILLIAM J. ANDERSON
DEPUTY DIRECTOR, GENERAL GOVERNMENT DIVISION
BEFORE THE
SUBCOMMITTEE ON DISTRICT OF COLUMBIA
COMMITTEE ON APPROPRIATIONS
UNITED STATES SENATE
ON
OFFICE OF YOUTH OPPORTUNITY SERVICES
DISTRICT OF COLUMBIA GOVERNMENT

Mr. Chairman and Members of the Subcommittee:

We are pleased to meet with you today to present our findings concerning financial management problems in the Office of Youth Opportunity Services.

The deficiencies we identified evidence severe weaknesses in the financial controls maintained by the office. Problems of this nature are not unique to the Office of Youth Opportunity Services. On December 8, 1975, the Comptroller General testified before the House Committee on the District of Columbia regarding a proposed audit of the District's financial condition. In his statement, Mr. Staats observed that the General Accounting Office has found the weaknesses in the District's internal control and the inadequacies in its recordkeeping to be widespread and severe.

While the Office's managers bear immediate responsibility for the conditions we found, the underlying cause of the problems was the District Government's failure to have in place an effective system of financial management controls, although given the flagrant and knowing deviations from policy and

procedure by the Office's management, even an effective financial management system might not have averted problems. As the Comptroller General pointed out, there is an urgent need for the District to improve its procedures and systems. The affairs of the Office of Youth Opportunity Services emphasize how real this need is. Regarding the Summer Employment Program, we noted that

- Ineligible youths were knowingly accepted into the program,
- Thousands of unclaimed paychecks were being held for extended periods without being returned for cancellation,
- The state of the files was such that we could not verify the propriety of the payments made to 74 of the 272 youths included in our sample,
- A number of youths were paid for hours in excess of those actually worked, and
- The Office neglected to withhold FICA taxes from more than 2,000 paychecks, making the District liable for \$23,000.

In addition, we observed that

- The Office overobligated various funds during each of fiscal years 1973 and 1974,
- In addition to not effectively controlling the use of grant funds received from HEW and the Department of Labor, the Office applied part of the funds from each to unauthorized purposes, and
- Had 48 permanent positions filled, although only authorized 28.

Mr. Chairman, to us this situation demonstrates a real need for the Office of Youth Opportunity Services to improve its financial management. If that Office does not continue to have responsibility for these programs, care should be taken by any successor group or groups to avoid deficiencies of the type we found.

Background

The Office of Youth Opportunity Services was established in 1970 and organizationally reports to the Office of the

Mayor. Its primary responsibility is to assist the Mayor in planning and coordinating District Government and private agency programs conducted for youths as a means of reducing and preventing juvenile delinquency in the District.

The Congress has appropriated about \$2 million each year over the past several years for conducting the affairs of the Office, and in addition we were able to identify grants to it from various Federal agencies totaling about \$7 million and about \$9 million in fiscal years 1974 and 1975, respectively. Under the Office's sponsorship, or direct operation, District youths were offered free of charge a wide range of diversified services and activities, including medical, dental, legal, and counseling services, recreational activities, and schooling.

SUMMER EMPLOYMENT PROGRAM FOR
DISADVANTAGED YOUTHS

The Department of Labor granted the District \$6 to \$8 million in each of the past several years for a program giving short-term employment to disadvantaged youths during the summer months in Government and private agencies. The 1973 program was authorized by the Economic Opportunity Act of 1964 (42 U.S.C. 2740) and the Emergency Employment Act of 1971 (42 U.S.C. 4871). Subsequent programs in 1974 and 1975 were authorized by the Comprehensive Employment and Training Act of 1973 (CETA) (29 U.S.C. 871). About 15,000 youths were in the program each year and the Office was the District agency responsible for administering the grant funds. Our observations on its administration follow.

1. The 1974 program required participating youths to be economically disadvantaged as defined by Department of Labor statutory regulations published under CETA. The Office requested Labor to waive the eligibility requirement to permit 20 percent of the enrollees to be nondisadvantaged but Labor denied the request because, as it rightly stated, it had no authority to waive the statutory requirement. Nevertheless, the Office deliberately enrolled about 3,000 ineligible youths in the program and charged the \$1.3 million expenditure for these nondisadvantaged youths to the grant funds. In our opinion, the Office's director violated the statutory regulations by knowingly enrolling ineligible youths in the summer employment program. By so doing, the director may also have violated the criminal provisions (18 U.S.C. 665) of CETA, prohibiting the willful misapplication of CETA funds. (See GAO note.)

GAO note: A sentence concerning referral of certain matters to the Department of Justice has been deleted.

DOL later extricated the District from the difficulties created by this misapplication of funds by agreeing to allow the District to charge the \$1.3 million to another DOL grant which had unspent funds available for employment of unemployed or underemployed people.

2. Thousands of payroll checks amounting to several hundred thousand dollars were prepared but unclaimed or undeliverable to the youth payees. These checks were held at the work sites and at the Office for many months before being returned to central accounting for voiding. The Office, for example, sent \$480,000 of unclaimed checks back to central accounting between August 1973 and June 1974 which it had held for as long as 9 months. One of the work sites we visited in September 1974 had 59 checks on hand amounting to \$4,000 which were dated a year earlier.

We were unable to get a satisfactory explanation as to why so many checks went unclaimed, and we cannot understand why such a large number of needy youths would fail to pick up their paychecks. This situation evidences serious management problems in the summer employment programs. The Office was negligent in its handling of Government funds by not having the checks promptly voided when payees could not be located. The problem persisted through the most recent 1975 program when there were 862 checks amounting to \$82,000 unclaimed by the payees.

3. The Office was responsible for keeping records on the youths they had certified as eligible for the program. Our review of payments to 272 selected youths showed that payments to 83 youths (31 percent) who were paid a total of \$16,770, were not supported by the necessary eligibility certification forms. Further, because the District's central accounting office, which processed the payroll, did not retain proper files of supporting documents such as time and attendance reports and personnel action forms, we could not verify the propriety of any of the payments to 74 of the 272 youths in our sample.
4. Payments were made to youths for hours not worked. For example, the time and attendance records sent in by two agency supervisors were altered by the Office without the supervisors' knowledge, increasing the number of hours worked and resultant payments to 74 youths by \$1,075.77. We noted eight other

instances where youths were paid a total of \$184.00 more than what they should have been based on the number of hours the youths signed for on their time and attendance reports.

5. Employees' share of FICA taxes was not always withheld from youths' pay, as required by law. Special vouchers prepared by the Office, covering more than 2,000 paychecks totaling over \$198,000 did not withhold about \$12,000 of employees' FICA taxes. Because the employees' FICA taxes were not withheld, the District is liable for both the employees' and employers' share of the taxes--over \$23,000.

LACK OF CONTROL OVER APPROPRIATED
AND FEDERAL GRANT FUNDS

In addition to the financial management deficiencies I just recited in the administration of the summer employment programs, we observed the following financial irregularities in other activities of the Office.

1. In fiscal year 1974 the Office overobligated its available funds by \$132,000 because of faulty procedures for recording and monitoring obligations incurred against the funds. It charged certain obligations totaling at least \$400,000 to a special account for matching funds required for Federal grants and then at the end of the year transferred the charges to its appropriations. However, by that time there were insufficient appropriated funds left to cover all of the charges - result: overobligation. Such a procedure is obviously a poor way to control funds.
2. A similar overobligation of funds occurred in fiscal year 1973 amounting to \$30,000.
3. The Office received a grant of \$225,000 from the Department of Health, Education, and Welfare for the operation of a youth assistance center and by August 31, 1974, when the grant period expired, a total of \$276,000 had been charged to the grant account--\$51,000 in excess of available grant funds.

Further, the conditions of the grant specified that the monies were to be used only for personnel and consultant services to find a center, recruit and hire staff, and operate the center. We identified about \$67,000 charged to the grant account that would

not be allowable for items such as, transportation, supplies, equipment, and premature personnel costs.

4. Similarly, a Department of Labor grant of \$234,500 to the Office to help finance operating costs of the D.C. Street Academy during fiscal years 1973 and 1974 was charged with \$46,000 in excess of the grant amount. The D.C. Street Academy is a school operated by the Office which is intended to provide education opportunities to disadvantaged school drop-outs to enable them to attain a high school diploma.

The Office cleared the overexpenditures from the grant account by transferring them to other accounts and grants, including a switch of \$20,450 to a Department of Labor grant for recreation support. This charge appears improper since the D.C. Street Academy is not a recreational activity.

PERSONNEL POSITIONS EXCEEDED
BUDGETARY CEILINGS

In fiscal year 1974, the Office exceeded the Federal Office of Management and Budget (OMB) personnel ceiling incorporated in its congressionally approved budget by 20 employees. The approved budget authorized 28 permanent positions and 61 temporary positions. We found that 20 of the positions carried as temporary were actually filled for a year or more and therefore should have been classified as permanent positions. Since the permanent slots were already fully occupied during the year, the Office exceeded its ceiling by these 20 positions.

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That concludes my statement, Mr. Chairman. We will be happy to [answer] any questions you may have.



GOVERNMENT OF THE DISTRICT OF COLUMBIA
EXECUTIVE OFFICE

OFFICE OF THE SPECIAL ASSISTANT
TO THE MAYOR FOR YOUTH OPPORTUNITY SERVICES
JUVENILE DELINQUENCY PREVENTION DIVISION

REPLY TO:
1350 E STREET, N.W., SUITE 406
WASHINGTON, D.C. 20004

STATEMENT OF DR. JAMES L. JONES
IN REPLY TO THE GAO REPORT ON
THE OFFICE OF YOUTH OPPORTUNITY SERVICES

William J. Anderson, Deputy Director, General Government Division of the General Accounting Office, delivered a statement on the Office of Youth Opportunity Services' operation and fiscal management of youth programs, which was inaccurate, failed to portray the truth and does not give the public an accurate picture of the Office of Youth Opportunity Services' administration or programmatic impact. As the Director of the Office, this answer is prepared in order to rebut the inaccuracies made by GAO and to provide the general public with the truth.

Since this Office's inception, it has administered approximately 50 million dollars worth of programs. Neither the GAO report nor any other report has ever indicated any theft, corruption or actual mismanagement of funds. However, Mr. Anderson's statement is written in such a manner as to lead one to believe that such acts have occurred when, in fact, they have not.

If the report were to reflect the true picture, it would have indicated some of the accomplishments of the program. Over the last three years, the Office of Youth Opportunity Services has doubled the youth employment rate, hiring on the average of 16,000 youths during the summer; it has developed comprehensive services to the youth in the area, such as counseling, medical, dental, educational, recreational, and cultural; increased citizenship awareness through the Neighborhood Planning Councils, and its democratic process of voting and running for office; set up the Youth Courtesy Patrols; sponsored the D. C. Street Academy, and serviced each year between 60-70,000 youths in this City.

ISSUE I

G.A.O. alleges that ineligible youths were knowingly accepted into the summer employment program.

ANSWER:

This is not true. The youths that G.A.O. claims were ineligible were 3,000 youths who were classified as near poverty-just above the poverty line. \$5,050 for a family of four. This particular class of youths were authorized to be hired in the 1973 program. Preliminary discussions with the Labor Department indicated that non-poverty youth could also be hired again in 1974. At the time this agreement was made it was anticipated that the money would be coming from the section of the Comprehensive Employment and Training Act. Title I of that act authorizes the hiring of non-poverty youths.

Congress subsequently appropriate the money under another title which indicated that only poverty youths could be hired. The Labor Department then informed the D. C. Government of the fund restrictions. But by that time 3,000 youths had already been enrolled, promised jobs, were ready to go to work, and in some cases, already working. It was decided that in the best interest of the youth and of the city that these needy young people should

not be terminated because of this technicality. It then became incumbent upon the District of Columbia Government to use all of its resources to insure that these young people would not have to be severed from the payroll. Negotiations began immediately to identify available funds both within the D. C. Government and outside that would pay the estimated \$1.3 million for the near poverty youth.

The Department of Labor examined the various acts and found that there were sufficient funds authorized under the Act which would allow their employment and not violate any law. This joint effort on the part of the Federal and District Government illustrated how government can serve young people when there is a will. There was no violation of any statute. However, the G.A.O. itself would lead the general public to believe that there were gross violations.

ISSUE II

GAO alleges that thousands of unclaimed checks were being held for extended periods without being returned for cancellation.

ANSWER:

This is not true. In 1973 the Office of Youth Opportunity Services experimented with a new pay procedure which was designed to alleviate the problem of youngsters having to wait 4-6 weeks for their first check and to provide them with a small amount of money at the end of their first 2-week work period.

As you know, working for the Federal Government, it would take somewhere between 3-4 weeks before an employee receives his first check.

There was great concern by the youth of the city that they could not wait this long for their first check and they needed money for transportation and for lunch and other expenses in order to get back and forth to work.

In order to solve this problem, the Office of Youth Opportunity Services would register a youngster and once on that register, would pre-cut a \$20.00 check. This \$20.00 check would be held until the youth's first time sheet was submitted. Once the youth's time sheet was submitted, it was matched up with the pre-cut check and issued to the youths rather than having to wait 3-4 weeks. This pre-cut check which amounted to approximately

\$20.00 would provide them with sufficient money for transportation and other expenses until the full check was received. So, in fact this enabled the Office for the first pay period to solve the problem of the 3 week wait.

Some of the youths who registered for jobs and who were put on payroll, however did not report for work, but a check was pre-cut for them just in case they did. In instances where they did not work, they were not issued a check; the check was held and eventually cancelled.

There were approximately \$480,000 worth of pre-cut checks that were not issued to the would be worker because he failed to report for work. These pre-cut checks were eventually returned and cancelled. These pre-cut checks were not out in the field, they were properly secured in the Office of Youth Opportunity Services' safe.

GAO states in its report that approximately 59 checks were being held at a work site.

This office issued guidelines about returned checks. These checks may have been held longer than anticipated but they were turned in and the records were rectified. The explanation given to us by the worksite supervisor for holding the checks was that the youths had to have ample time to pick them up.

GAO was given a satisfactory explanation - the one stated above--and all checks were properly issued.

GAO indicated also that the Office of Youth Opportunity Services was negligent in handling of Government funds by not having the checks promptly voided when payees could not be located. GAO thoroughly does not understand the nature of the summer program for if it did, it would not have made this statement.

Checks often were held a reasonable length of time to insure that there was ample opportunity to locate the worker, after the summer program was over and also during the summer and particularly with inner city youths, there is a tendency to move, leave the city for various reasons. If the cancelled checks were returned and a youth showed up it would take 6-8 weeks to get a check redone. It was felt in the best interest of the youth and since the checks were safeguarded, held by Youth Opportunity Services there was no danger to the government in losing this money.

It should be noted that checks are distributed by special 40 man Office of Youth Opportunity Services staff and they distribute to the site supervisor on over 150 sites and these site supervisors issue the checks to the youth worker.

ISSUE III

G.A.O. alleges that the state of the files was such that they could not verify the propriety of payments made to 74 of 272 youths included in their sample.

ANSWER: The Office of Youth Opportunity Services' responsibility in the area of maintaining records included the processing of the various forms and forwarding them to the central account system. Central accounting processed the payroll and maintained all records. The Office of Youth Opportunity Services was not required to maintain the same records as central accounting. It has not yet been determined whether the records were not actually at the Central Accounting Office or whether G.A.O. failed to look diligently to see if they were there.

ISSUE IV

GAO alleges that a number of youths were paid for hours they did not work for.

ANSWER

Actually, particular care was taken to assure that no youngsters were paid for hours not worked. All time sheets were verified at two levels of supervision, the site supervisor and the OYOS monitor supervisor.

GAO cites as an example, that time and attendance records were altered by the office without the supervisor's knowledge increasing the number of hours worked and resulted in payments to seventy-four (74) youths by \$1,075.77. The alterations were both appropriate and proper, following established procedures to resolve disputes between the field supervisor's recordation of work hours and the youth worker's. The monitor supervisors of OYOS staff were authorized to investigate the dispute and where necessary make the proper adjustments on the time sheet. In many instances, the field site supervisor who are for the most part volunteers working in private agencies oftentimes error in recording time. There had to be some mechanism for adjustments and to safeguard the right of the youth employed, so some forty (40) college students are utilized for this purpose during the summer program and were frequently required to make these adjustments.

GAO also indicates that they noted eight (8) other instances where youth were paid a total of \$184.00, more than what they should have been based on the number of hours the youths signed for on their time and attendance reports. To emphasize again, how this report is slanted and biased one can see if you were to divide 8 into 184 each youngster would have received an overpayment of approximately \$23.00. It is a well established fact that human error may in some instances cause an overpayment to employees. Where this error is discovered, there are several options open to rectifying it:

- 1) The employer may have the amount of dollars deducted from his check.
- 2) He could be required to return the money.
- 3) He could be allowed to work this off in additional hours.

It should be noted that GAO located 8 overpayments out of some 16,000 checks being issued in one pay period, which is .0005%, and to further project, this would be 8 checks out of 64,000 checks issued over one summer.

ISSUE V

GAO alleges that the Office was negligent in failing to withhold FICA taxes from more than 2,000 paychecks, making the District liable for \$23,000.

ANSWER

The Office of Youth Opportunity Services has neither the responsibility nor the duty of cutting checks or withholding FICA taxes. This is the exclusive function of the Central Accounting Office. However, the report would in essence have one to believe that this was mismanagement on the part of the Office of Youth Opportunity Services, when in fact it was not.

A report from the Central Accounting Office indicated that GAO had been informed that the FICA withholding from the 2,000 pay checks had been taken out on the following pay period.

ISSUE VI

GAO alleges that the office over obligated various funds during each of fiscal years, 1973 and 1974. In addition, to not effectively controlling the use of grant funds received from HEW and the Department of Labor, GAO alleges that the office applied part of the funds from each to unauthorized purposes.

ANSWER:

Any funds that were overobligated have been rectified or negotiations are presently underway to bring these accounts into balance.

It is a well established fact that in providing services and programs unforeseen costs would be incurred and it would be necessary to make adjustments and to increase the funding base of programs. This is generally done through the modification of contracts, and through the use appropriated monies including the matching portion of the grant to absorb such costs not covered by the grant.

GAO also indicated that the conditions of the HEW grant specified that the monies were to be used only for personnel and consultant services to find a center, recruit and hire staff and operate the center.

It should be noted that there are always start-up costs for new programs. Such start-up costs, as supplies, and equipment renovation and personnel were required prior

to actual operation. This cost was necessary in order to use HEW money.

The non-personnel costs related to the HEW grant were chargeable to the matching portion of the grant and to the Ford Foundation funds allocated to OYOS through the Mayor's Office. HEW performed an intensive audit of this particular grant and, while no official report has ever been submitted to me, I have not been informed by HEW of any irregularities in connection with this grant.

The report also stated that the Department of Labor grant of \$234,000 to the office to help finance operating costs of the D. C. Street Academy during fiscal years 1973 and 1974 was charged with \$46,000 in excess of the grant amount. The D. C. Street Academy is a school operated by the office which is intended to provide education opportunities to disadvantaged school dropouts to enable them to obtain high school diplomas.

The office cleared the over expenditures from the grant account by transferring them to other accounts and grants, including a switch of \$20,450 to a Department of Labor grant for recreation support. GAO states that this charge appears improper since the D. C. Street Academy is not a recreational activity.

Here again illustrates the lack of understanding on GAO's part of the functions of the program as it is

a well established fact that recreational programs are an integral part of educational programs and almost all schools have some sort of recreational program. The D. C. Street Academy is no different. The Street Academy, during the period stated provided approximately \$20,000 worth of recreational activity in its facility to include plays, skits, and other learning activity, bringing in smaller children from the community, as such the \$20,000 was properly charged to the RSP grant, because the D. C. Street Academy did in fact provide recreational activities which qualified under the grant.

ISSUE VII

G.A.O. alleges that the Office of Youth Opportunity Services hired 20 permanent positions over the authorized amount by Congress. Here again G.A.O. misrepresents the fact.

ANSWER: Congress approved 28 positions by their definitions as permanent. The 20 other positions that G.A.O. alleges were permanent were actually temporary. However, their occupants arrived at a permanent status because they served for more than a year. This is in accord with city-wide and Federal personnel practices. To keep the occupants of these temporary positions from acquiring permanent status, we would have had to fire each of these 20 persons at the end of a year and hire new people, adversely affecting the efficiency of the program and unfairly treating the employees.

The Office of Youth Opportunity Services normally receives an amount of appropriated funds allocated for grant matching purposes which is used to hire a staff supportive to all its programs. This amount of money is earmarked for "funds approved by Congress without positions" in the District's accounting system. These positions do not fall in the same category as "permanent full-time operating positions approved by Congress". Therefore, the Office of Youth Opportunity Services has not over-filled the number of permanent full-time operating positions approved by Congress.

In conclusion, I hope that this report will enlighten you as to the true management of this office. This office during its 8 years of existence has but one objective - to serve the people of this city particularly its young people in the proper and fitting manner. It has attempted to do this through the development of programs such as the Courtesy Patrols, the 24-Hour Centers, D.C. Street Academy, the Curbstone (the Youth Newspaper), the revival of the high school All-Star Football Game in the RFK Stadium and sponsorship of other needed activities.

In addition, it has served as a focal point for youth problems and solving youth problems.

There has been no mismanagement of funds, no misappropriation of funds, and all monies issued for the youth of this city have truly been spent on them.