



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

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Dear Mr. Chairman:

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In response to the Committee's request of December 18, 1970, we reviewed the current status of corrective actions taken on certain prior years' fiscal irregularities found in the Department of Labor's Neighborhood Youth Corps program in New York City. These matters were discussed in our report of October 14, 1969 (B-130515). As in our earlier work, we confined our efforts primarily to obtaining and evaluating information furnished to us by officials of the various agencies involved in the administration of the program.

The Neighborhood Youth Corps program in New York City consists of the in-school, the out-of-school, and the summer component programs. Federal funds totaling \$94 million were authorized from the inception of the program in February 1965 through June 30, 1969. From July 1, 1969, through June 28, 1971, an additional \$56.3 million was authorized, of which \$19 million was for the 1971 summer program.

The funds currently are being expended under contracts between the Department of Labor and the Youth Services Agency, a constituent agency of the Human Resources Administration, and the city of New York. The Youth Services Agency in turn operates through agreements with delegate agencies; 35 delegate agencies participated in the 1970 summer program.

CONTINUING PROBLEMS IN ACCOUNTING AND INTERNAL CONTROLS

Our October 1969 report stated that information furnished to us indicated that substantial amounts of Neighborhood Youth Corps funds, principally the summer program payroll funds, had been misappropriated by employees of the sponsors and of the delegate agencies. Investigators concluded that it was not practicable to determine the total amount of funds misappropriated, but they estimated that losses of about \$1.5 million were sustained under the 1967 and 1968 programs. These losses were due largely to payments involving nonexistent payees and nonexistent jobsites. Our report pointed

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out that audit work underway on the 1965 and 1966 programs resulted in the questioning of an estimated \$2.3 million of 1965 program expenditures for payrolls.

Our report pointed out also that the sponsors' accounting and related internal controls had been deficient. As of May 1969 actions taken by the Department of Labor and the Human Resources Administration to correct these weaknesses included (1) partial implementation by the Human Resources Administration of specific financial safeguards prescribed by the Department and the Office of Economic Opportunity, (2) transfer of the sponsorship of the 1969 summer program from the Manpower and Career Development Agency to the Youth Services Agency, and (3) transfer of the responsibility for preparing, distributing, and postauditing enrollee payroll checks for the 1969 summer program to the Division of Employment of the New York State Department of Labor.

Our current inquiries have revealed that, although various improvements in program administration have been made, there are continuing problems in accounting and internal controls, which relate to the payroll activities of the sponsor and the delegate agencies. In an October 1970 report on a review of enrollee wage payments under the 1970 summer program by the Internal Audit Section, Division of Employment, New York State Department of Labor, the auditors restated the recommendations for corrective actions which they had included in a prior report on a review of the 1969 summer program but which had not been implemented by the sponsor. These matters concerned

- the confused state of records in all delegate agencies immediately prior to and after the start of the program, which indicated a need for substantial lead time for developing procedures and training sponsor and delegate agency staff in the proper handling of time cards and payroll records;
- a need for devising a method for preparing current and accurate lists of enrollees categorized by worksite;

- a need for the sponsor to install an appropriate payroll and time recordkeeping system which would eliminate the types of weaknesses found by the auditors and to require the posting by delegate agencies of absences and reasons for such absences on time cards; and
- the posting by delegate agencies of hours of work for a full week without adequate time card support and using the supplementary payroll to pick up additional compensatory hours of work without valid time card backing, which therefore indicated a need for the sponsor and the Division of Employment to develop and install tighter controls over this phase of the payment process.

Also the New York State Department of Audit and Control in a report dated February 3, 1971, on its audit of the 1970 summer program revealed a need for strengthened attendance control procedures at delegate agencies. The auditors had noted similar basic weaknesses under the 1969 summer program.

The Department's Regional Manpower Administrator in New York advised us in April 1971 that the Department was contracting with a public accounting firm to provide technical assistance to delegate agencies. Also the Director of the Special Review Staff in the Department's Manpower Administration reported in April 1971 that the Department's New York Regional Office (1) had intensified the monitoring of the Human Resources Administration and was providing technical assistance on a continuing basis and (2) planned to place a Federal fiscal officer and a contract specialist onsite to assist the sponsor and to provide onsite monitoring capability for the Department.

STATUS OF INVESTIGATIONS AND
CONVICTION OF ARRESTED EMPLOYEES

The results of investigations by the New York City Department of Investigation into fiscal irregularities under

the 1967 and 1968 programs were reported to the Committee in our report of October 1969. The irregularities involved cashing fraudulent enrollee payroll checks and embezzling from an employee emergency fund.

A deputy commissioner of the Department of Investigation advised us in March 1971 that his department had not performed any significant investigative work in the program subsequent to October 1969. He told us that the work performed subsequent to October 1969 related primarily to the follow-up on cases of 10 delegate agency employees and a Human Resources Administration employee who had been arrested in connection with misappropriations of enrollee payroll checks under the 1967 and 1968 programs. According to the Department of Investigation, these cases, involving thefts ranging from \$151 to \$4,588, were referred to cognizant district attorneys and were disposed of, as follows:

	Number of <u>cases</u>
Employee pleaded guilty and received suspended prison sentence of 1-1/2 to 3 years	1
Employees pleaded guilty and placed on probation (note a)	4
Indictment returned but case not yet tried	1
Cases dismissed	3
No indictment returned	<u>2</u>
 Total	 <u>11</u>

^aIn one case a fine of \$695 was levied.

Our October 1969 report also pointed out, in regard to the investigation of the 1968 program by the Department of Investigation, that--relating to the fraudulent enrollee payroll checks--the supervisor of the Neighborhood Youth Corps fiscal unit of the Human Resources Administration, his assistant, and a former employee had been indicted on charges of conspiracy, grand larceny, forgery, and criminal possession of stolen

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property. An assistant district attorney of New York County advised us in February 1971 that the three individuals had pleaded guilty. He stated that the supervisor had been sentenced to serve a prison term of from 2 years and 4 months to 7 years and that his assistant had been sentenced to a term of from 15 months to 4 years. The former employee had not yet been sentenced.

We also had reported the arrest and indictment of the Human Resources Administration director of fiscal affairs on charges of embezzling funds from an employee emergency fund. The assistant district attorney informed us that the director of fiscal affairs had pleaded guilty and had been sentenced to serve a prison term not to exceed 4 years.

The assistant district attorney also told us that the guilty parties had not made any restitution of the misappropriated funds.

In a report furnished to us on April 9, 1971, by the Department of Labor's Assistant Secretary for Manpower, the Director of the Special Review Staff reported that the Neighborhood Youth Corps program in New York City had been operating without the presence of fraudulent activities and other problems after the New York State Division of Employment assumed the responsibility for enrollee payrolls for the 1969 summer program. The Department's Regional Manpower Administrator in New York similarly reported on March 19, 1971, that the operation of the enrollee payroll for the summer program by the New York State Division of Employment generally had been successful and that the incidence of fraud had been low.

The reported elimination of major enrollee payroll frauds was affirmed by the deputy director of the Human Resources Administration's Office of Review which performs investigative work relating to the programs administered by that agency. He told us that the improved situation was due to better fiscal controls resulting primarily from the assignment of the enrollee payroll function to the New York State Division of Employment.

RESULTS OF DEPARTMENT OF LABOR AUDITS

The Department of Labor has completed audits of all expired Neighborhood Youth Corps program contracts covering the period from February 1, 1965, to July 7, 1969, during which time estimated losses of \$1.5 million occurred through misappropriations by sponsor and delegate agency employees. On the basis of its findings, the Department, with the concurrence of the Human Resources Administration, disallowed \$10.5 million of the costs of \$86.1 million claimed by New York City. Because Federal funds of only \$79.5 million had been advanced to the city, a refund of only \$3.9 million was required (\$79.5 million less \$75.6 million allowed). A departmental official indicated on July 6, 1971, that arrangements for refund of the \$3.9 million had not been finalized.

The disallowed program costs of \$10.5 million consisted primarily of charges for enrollee costs totaling about \$9.8 million. The remaining disallowed costs of \$700,000 related to charges for various staff, operational, and delegate agency costs.

Of the disallowed enrollee costs of \$9.8 million, charges of \$8.8 million for enrollees' wages and related costs were not allowed under two contracts because, among other things, the expenditures exceeded the amounts authorized in the project budgets.

Other disallowed charges for enrollee costs not involved in budget overruns included about \$323,000 because of duplicate charges for the same enrollee payrolls, \$180,000 because gross payroll amounts were not reduced to reflect voided payroll checks, \$151,000 because of unauthorized and otherwise questionable payments to enrollees by a delegate agency, \$264,000 for social security costs relating to disallowed enrollee wages and erroneous computations, and \$66,000 because a reduction in premiums for workmen's compensation insurance had not been applied appropriately to enrollee payrolls.

CONCLUSIONS

The New York City Neighborhood Youth Corps program apparently has not experienced any recurrence of the large-scale misappropriations of funds reported for the 1967 and 1968 programs. In view of the continued weaknesses in the maintenance of enrollee payroll records by the delegate agencies, as reported by New York State auditors, however, we believe that there is need for continuing close surveillance of the program in New York City by the Department of Labor until adequate payroll and recordkeeping procedures are established and adhered to by delegate agencies and others involved.

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We plan to make no further distribution of this report unless copies are specifically requested, and then we shall make distribution only after your agreement has been obtained or public announcement has been made by you concerning the contents of the report.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "James B. Stewart".

Comptroller General
of the United States

The Honorable Carl D. Perkins, Chairman
Committee on Education and Labor
House of Representatives