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REPORT BY THE U.S.

General Accounting Office

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Administrative Weaknesses In St. Louis' Comprehensive Employment And Training Act Program

At the request of Congressman William L. Clay, GAO reviewed many questions about St. Louis' Comprehensive Employment and Training Act program and found problems in program management, accounting for funds, and building management.

Back

Some key administrators were not appointed under a system meeting Federal merit principles, administrative costs were not properly allocated among grant titles, and the administrative office was renovated without prior approval of the grantor agency.

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In other instances St. Louis' activities seemed proper, or problems had already been identified and corrective action recommended. This report contains recommendations to the Secretary of Labor to correct the problems GAO identified.



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MARCH 2, 1979





UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

HUMAN RESOURCES
DIVISION

B-163922

The Honorable William L. Clay
House of Representatives

Dear Mr. Clay:

You asked that we investigate allegations and questions concerning administrative weaknesses in St. Louis' Comprehensive Employment and Training Act (CETA) program, which is administered by the St. Louis Agency on Training and Employment (SLATE).

Our findings are summarized below and presented in more detail in appendix I. Appendix I also contains an explanation of legal changes in the program since our review and a description of the scope of our review. The allegations and questions are listed in appendix II.

CETA regulations require that a prime sponsor assure that it will comply with the provisions of Federal Management Circular 74-4, which provides general and specific criteria concerning the allowability of costs charged to Federal grants. We found that, although SLATE assured that it would comply with the requirements of Circular 74-4 when applying for CETA funds, it has failed to do so in certain areas. The allowability of certain costs charged to the CETA grants is questionable because Circular 74-4 was not followed:

- Four key SLATE administrators were hired under sub-grantee contracts, and a fifth was loaned rather than appointed under a system meeting Federal merit principles--as required by CETA regulations. Circular 74-4 provides that compensation for personal services is allowable if it follows an appointment made in accordance with State or local government laws and rules, and if it meets Federal merit principles or other requirements.

--SLATE has allocated administrative costs among CETA title grants so that the legal limitations (relating to the maximum allowable administrative, training, and support services costs) are not exceeded, rather than ensuring that each title bears its equitable share of administrative costs. Circular 74-4 requires that federally assisted programs bear their fair share of allowable and allocable costs; it prohibits shifting costs among Federal grant programs to avoid program restrictions.

--SLATE's administrative office was renovated at a net cost \$42,000 without the required approval from Labor's regional office. Circular 74-4 provides that costs incurred for rearrangement and alteration of facilities required for the grant program are allowable when specifically approved by the grantor agency.

We found that SLATE incurred higher rents when it moved its administrative offices housed in five locations to one location. However, we could not determine the reasonableness of the increased rental cost because the city comptroller's office determination of the reasonableness of the lease cost at the centralized location was not documented. We also did not address whether administrative cost limitations have been exceeded by the higher rental costs because SLATE lacked an equitable method for allocating pooled costs (including rental costs).

We found that SLATE overcommitted itself for title VI funds by several million dollars, apparently because of pressure from Labor's regional office to commit available funds or have the funds reallocated to another prime sponsor. SLATE has taken several steps to reduce the possibility of being overcommitted at the end of the program year. SLATE's most recent projection indicates that there will be an undercommitment in title VI at the end of fiscal year 1978, and Labor's regional officials believe SLATE will be able to end the fiscal year program within the constraints of available funding. We cannot attest to the projection's accuracy because SLATE's current projection was made after administrative costs were allocated by an unacceptable method of distributing pooled costs.

We believe that discharging a subgrantee employee so that SLATE would fund the subgrantee is not a legal violation. We also did not find a conflict of interest with the SLATE Director's previous relations with four service delivery agents.

A contractor had remodeled the SLATE Director's apartment and was awarded a subcontract by a subgrantee to provide technical and professional supervision of a project that used public service employment participants to rehabilitate private homes to conform with the St. Louis housing code. However, the SLATE Director has paid the contractor for part of the work and has arranged to pay and is paying the balance. Therefore, we cannot validate the allegation that the remodeling job was in exchange for the promise to supervise work under the home rehabilitation program.

Other questions about the St. Louis program (including compliance with unemployment insurance laws, SLATE's program participant intake services, duties of the Skill Center superintendent, and use of summer youth employment funds) are also discussed in appendix I.

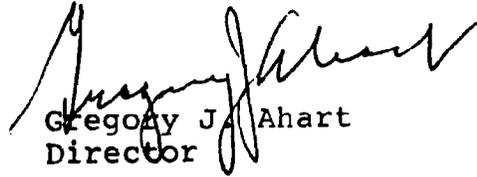
We recommend that the Secretary of Labor require Labor's Regional Administrator to

- terminate SLATE's hiring of employees through subgrantee contracts, bring the affected positions under a system which meets Federal merit principles in a timely manner, and recoup any CETA grant monies improperly spent;
- vigorously work with SLATE in developing an acceptable system for allocating administrative costs to CETA grants;
- assure that SLATE's administrative costs from fiscal year 1978 are reallocated under the new system and that CETA grant monies are recouped where the legal limitations were exceeded; and
- determine the allowability of the renovation costs and recoup any improperly spent CETA monies.

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The Department of Labor and the City of St. Louis generally agreed with our recommendations and are taking steps to implement them. As agreed with your office, in 2 weeks we will make copies of this report available to other interested parties.

Sincerely yours,



Gregory J. Ahart
Director

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ABBREVIATIONS

CETA	Comprehensive Employment and Training Act
CSA	Community Services Administration — AGC 177
GAO	General Accounting Office
HDC	Human Development Corporation — DLE 463
PSE	public service employment
RCI	recruitment/coaching/intake
SLATE	St. Louis Agency on Training and Employment — ?

ADMINISTRATIVE WEAKNESSES
IN ST. LOUIS' COMPREHENSIVE EMPLOYMENT
AND TRAINING ACT PROGRAM

INTRODUCTION

Congressman William L. Clay requested that we investigate certain allegations and questions about a local government agency that administers Comprehensive Employment and Training Act (CETA) activities in St. Louis, Missouri. The agency is the St. Louis Agency on Training and Employment (SLATE). The allegations and questions are listed in appendix II.

CETA was enacted in 1973 (29 U.S.C. 801); it authorized Federal grants to State and local governments for employment and training programs and other employment services. CETA is to increase employment opportunities and enhance individual self sufficiency for the economically disadvantaged, unemployed, and underemployed. The Department of Labor administers CETA programs on a decentralized basis through its regional offices.

After our fieldwork CETA was amended by Public Law 95-524 on October 27, 1978. Substantive changes were made to the enabling legislation, and several of the titles were redesignated under different title numbers. Title I of the original act was redesignated as title II of the 1978 act. Authorization for public service employment activities is contained in the amended title II, part D, as well as title VI. The designation for specially targeted training programs, except for youth, remains title III in the new act. All youth programs are in title IV of the new act. References to CETA in this report are to the then-current legislation rather than to the 1978 amendments.

The 1973 CETA, as amended prior to 1978, had eight titles. Title I authorized grants to State and local governments and combinations of government (prime sponsors) for designing and operating comprehensive employment and training programs. Authorized services included institutional and on-the-job training, work experience, vocational education and counseling, remedial education, job placement services, and transitional public service employment. Titles II and VI authorized grants to prime sponsors, primarily for transitional public service employment. Title III included

various employment, training, and demonstration programs to explore methods of dealing with the structural unemployment problems of the Nation's youth, migrants, Indians, and other target groups. Other CETA titles established the Job Corps (title IV), the National Commission for Manpower Policy (title V), the Youth Adult Conservation Corps (title VIII), and the administrative provisions (title VII).

We made our review at SLATE's administrative office and at the city comptroller's office in St. Louis. We examined records of the Human Development Corporation, a CETA subgrantee agency, relating to salary payments to selected SLATE employees. We also held discussions with SLATE and city comptroller officials and with representatives of the Department Labor's Kansas City regional office, which is responsible for Labor's monitoring and evaluating of SLATE's performance.

We did not make a detailed review or evaluation of individual projects or programs sponsored by SLATE. We did not attempt to verify the accuracy of SLATE's reported data. We made our review from April to July 1978.

SLATE had received about \$88 million through fiscal year 1978 for CETA titles I, II, III, and VI programs, as shown:

<u>Fiscal year</u>	<u>Title I</u>	<u>Title II</u>	<u>Title III</u>	<u>Title VI</u>	<u>Total for fiscal year</u>
1974	\$ -	\$ -	\$ 2,936,171	\$ (a)	\$ 2,936,171
1975	7,122,725	2,198,053	3,052,227	7,470,886	19,843,891
1976					
(note b)	8,252,802	2,313,382	3,344,519	c/833,134	14,743,837
1977	6,430,035	d/4,949,965	3,076,494	d/25,158,831	39,615,325
1978	<u>5,462,661</u>	<u>-</u>	<u>5,145,907</u>	<u>-</u>	<u>10,608,568</u>
Total for title	\$27,268,223	\$9,461,400	\$17,555,318	\$33,462,851	\$87,747,792

a/Title VI was enacted in fiscal year 1975.

b/Includes transition quarter.

c/Funds were not appropriated for title VI in 1976. \$833,134 was a transfer of funds for title II to sustain the title VI program.

d/The large increase in 1977 was due to the passage of the economic stimulus program to alleviate unemployment (Economic Stimulus Appropriations, 1977, Public Law 95-29, May 13, 1977). The grant was for an 18-month period; a major portion of the funds were to be used in fiscal year 1978.

Labor's Kansas City regional office is to monitor and evaluate the prime sponsor's performance. This includes providing technical assistance to the prime sponsor with planning and operations and approving the prime sponsor's operating plans.

ALLEGATIONS ABOUT PROGRAM MANAGEMENT

Use of patronage employees to fill administrative positions

SLATE was allegedly using patronage employees to fill administrative positions.

The current SLATE Director hired four key SLATE administrators through public service employment and supportive services contracts with the Human Development Corporation (HDC), a CETA subgrantee agency, rather than appointing them by a system meeting Federal merit principles, as required by CETA regulations. A fifth key administrator, who is an HDC employee, was loaned to SLATE before the present Director assumed his position in April 1977. His services are not covered by a contract. Fourteen employees holding lower administrative positions had been hired under the same contracts by SLATE's current Director. Of these, 10 were still employed, 3 had resigned, and 1 had been discharged by the Director as of May 1978.

The key administrators were the Deputy Director, the Director of Youth Services, the Director of Client Services, the Administrative Assistant to the Director, and the Building Manager.

The Deputy Director and the Building Manager were, until early 1978, paid as consultants to SLATE under a contract with HDC that provided for an assessment service; that is, for determining whether potential CETA participants met Department of Labor eligibility requirements and for providing vocational counseling services. The Deputy Director, hired in May 1977, was appointed to her position under St. Louis' system of personnel administration in April 1978. She was paid \$18,262 under three HDC contracts before her appointment. The Building Manager, first paid as a consultant in October 1977, was transferred from the consultant line item of the assessment service contract to the program salary and wages line item in March 1978, after the budgeted amount for consultants was exceeded. He was paid \$7,499 as a consultant. He was being paid \$15,314 annually as of May 1978.

The Director of Youth Services is paid under a specific line item of the assessment service contract, even though he is not involved in assessment activities. He was given a 24-percent pay raise in November 1977 (retroactive to October 1977) at the request of the SLATE Director; however, the contract was not modified to cover the additional cost of his services. He was being paid \$20,930 annually as of May 1978.

The additional salary costs for the Director of Youth Services and the Building Manager will be paid from budgeted line items specified for the individuals who have resigned or been discharged.

The Administrative Assistant to the Director, hired in June 1977, was appointed to her position under the city personnel system in April 1978. She was paid an annual salary of \$12,506 as of May 1978. We found that she was being paid under the participant line item under a public service employment contract with HDC before her appointment, although she had not been certified eligible as a participant; i.e., not certified as a long-term unemployed and low-income person.

HDC submits a periodic request for payment to SLATE covering the salary of the Director of Client Services. He was being paid \$18,772 annually as of May 1978.

The other 10 individuals were being paid under similar arrangements. For example, the secretary to the Director is paid as a participant on the public service employment contract. She, too, was not certified eligible as a participant. Another example is the secretary to the Director of Technical Assistance--a key administrator. She is paid under a budgetary line item of the assessment service contract, although she does not work in the assessment activities.

CETA and Circular 74-4 requirements

CETA regulations require prime sponsors to establish and maintain personnel administration methods that conform with the Intergovernmental Personnel Act merit principles. Prime sponsors are in compliance with regulations when their personnel systems have been approved by the Civil Service Commission.

CETA regulations also require a prime sponsor to assure that it will comply with Federal Management Circular 74-4 provisions, which give general and specific criteria on the allowability and allocability of costs to Federal contracts and grants.

The personnel administration system for the City of St. Louis meets the Federal merit standards, according to the Civil Service Commission's St. Louis regional office. According to an October 1977 agreement between Labor's Kansas City regional office and the City of St. Louis, SLATE is under the City's personnel system established by article XVIII of the City charter.

Article XVIII provides for excepted positions; i.e., positions in the classified service not requiring competitive tests of fitness for appointment and other provisions which apply to competitive positions. None of the positions discussed above are excepted positions. One of the basic requirements of article XVIII is that all appointments and promotions to positions in City service and the control and regulation of employment in such positions be based on merit and fitness, which are ascertained by competitive tests, service ratings, or both. Article XVIII provides for temporary appointments without competitive tests not to exceed 60 days.

Circular 74-4 provides that costs must meet certain general criteria to be allowable under a grant program, including be authorized or not prohibited under State or local laws or regulations and be consistent with policies, regulations, and procedures that apply uniformly to both federally assisted and other activities of the grantee's government unit. Circular 74-4 also provides that compensation for personal services is allowable to the extent that total compensation for individual employees follows an appointment made in accordance with State and local government laws and rules that meet Federal merit system or other requirements where applicable.

Comments by City Director of Personnel

We discussed with the St. Louis Director of Personnel how SLATE was filling administrative positions. He stated that he did not believe the Director's actions violated the rules and regulations of St. Louis' system of personnel administration.

Concerns expressed by Labor's regional office

Labor's Kansas City regional office has expressed concern about the use of contract employees in SLATE positions. We found indications of concern as far back as September 1975 (before the current Director's appointment) to as recently as March 1978 (almost a year after his appointment).

In a report on a CETA project review that was conducted in September 1975, the regional office stated that the use of a contractor staff may be contrary to civil service regulations. A trip report indicated that the Labor representative 1/ brought the problem to the mayor's attention in May 1977--about a month after the Director was appointed. In a March 1978 trip report, Labor's representative again stated that he expressed his concern to the SLATE Director that there could be violations of the regulations because some SLATE staff were not in the merit system.

SLATE comments

The SLATE Director stated that when he took office in April 1977 he was faced with implementing a summer program for the entire city; this entailed major Federal funding. This was to be done, he stated, after a Federal audit report was issued that severely criticized the summer program's administration in the past several years. He stated that the public trust required that he bring in capable persons to assist and/or oversee program efforts to avoid the loss of future funding and the waste of available funds.

The Director's basic approach was to review departmental responsibilities and related agency problems and to shift assigned responsibilities as deemed necessary. He stated that it was necessary to hire or promote individuals that were well qualified to handle the assignments. He stated that the review of SLATE administration is a continuing process, and he should not be prohibited from shifting assigned responsibilities. He stated that if he abused his discretion as Director, the Mayor can recall him.

Conclusions

Actions by the SLATE Director to fill administrative positions through subgrantee contracts counters CETA regulations because the appointments were not made under a system which meets Federal merit principles.

Contrary to the position taken by the St. Louis Director of Personnel, we believe the appointments were made in a manner which circumvented the St. Louis system of personnel administration which meets Federal merit principles. By circumventing the system, the SLATE Director failed to comply

1/An employee of Labor's Kansas City regional office who is the primary contact between SLATE and Labor.

with the agreement between SLATE and Labor's regional office and with Circular 74-4.

Although the SLATE Director took action to have two of the key administrators appointed under the St. Louis system of personnel administration in April 1978, no action had been taken as of July 1978 to have the other employees hired under subgrantee contracts appointed under the system.

Recommendations

We recommend that the Secretary of Labor require Labor's Regional Administrator to take the action necessary for terminating the hiring of employees by SLATE through subgrantee contracts, to bring the affected positions under a system which meets Federal merit standards in a timely manner and to recoup any improperly spent CETA grant monies.

Labor and sponsor comments and our evaluation

By letter dated January 19, 1979, Labor stated that its Kansas City regional office had already initiated actions to implement our recommendations. (See app. III.) Labor stated that, after our investigation, SLATE and the City personnel department met and developed plans to revise SLATE's table of organization, to initiate a job classification study on all the positions, and to bring all staff under the City personnel system. Labor also stated that it was aware of a meeting that was held in August 1978 between the two City agencies, and also one on December 6, 1978, and that, as of the December 6 meeting, a draft table of organization had been developed along with classification of the positions in SLATE.

Labor stated that it understood that they plan to negotiate the final position classifications and the table of organization in the near future. Labor also stated that the positions and classifications, where there is no disagreement, will be opened up for examination and transferring of appropriate staff or otherwise filling the positions based on the City of St. Louis' personnel regulations and on the table of organization. Additionally, as soon as the table of organization and position classifications are finalized, all staff will be brought under the merit system.

Labor also stated that an audit of the subgrantee who paid the salary of the affected SLATE employees is scheduled during this fiscal year and, after the audit is completed,

a decision will be made on any disallowed costs. We had called this and other matters discussed in this report to the attention of Labor's Kansas City field office of the Office of Special Investigations (now Office of Inspector General) in June 1978--shortly after its audit was initiated. In its report released January 19, 1979, the field office reported that the prime sponsor contracted with 19 individuals to work in administrative positions funded by CETA. The report did not identify the positions. The field office's report stated that the City of St. Louis apparently violated Federal merit standards by using nonmerit personnel in administrative positions with the prime sponsor organization. The field office concluded that, since these positions did exist and were authorized by the St. Louis Department of Personnel, it appears that the City's merit system is being circumvented because the positions were not filled through the civil service system. The field office recommended that

- the City stop contracting with individuals to fill administrative positions covered by the merit system;
- Labor obtain a determination from the U.S. Civil Service Commission 1/ as to whether the conditions reported violated the merit staffing principles; and
- if the conditions are determined to be a violation of the merit principles, Labor recover the costs from the prime sponsors.

We believe that the actions outlined by Labor in its comments should, if properly implemented, bring the affected positions under a system which meets Federal merit standards. However, we continue to believe that the positions in question were filled in a manner which circumvented St. Louis' system of personnel administration and, by this circumvention, failed to comply with CETA regulations and Circular 74-4. Accordingly, we believe that the use of CETA grant monies to pay the salaries of the affected personnel is improper and should be recouped from the prime sponsor.

1/The Commission was abolished in January 1979. Many of the Commission's functions were transferred to two new agencies: The Office of Personnel Management and the Merit Systems Protection Board.

City of St. Louis comments

The City of St. Louis stated in its December 29, 1978, comments that it would continue to expeditiously work toward immediately implementing our recommendations. (See app. IV.)

The City stated that the City's personnel department had completed a total reclassification and review process for SLATE, updated the table of organization (which had not been revised since March 1973), updated the pay grades and classifications for those positions, and would begin to advertise those positions no later than January 15, 1979. The City stated that it was certain that as soon as these positions are filled (within the next 90 to 120 days) that the Federal merit standards will be met.

The City did not comment on the propriety of using CETA funds to pay the salaries of individuals hired through a subgrantee.

Compliance with unemployment insurance laws

SLATE allegedly failed to comply with unemployment insurance laws when it provided for participants' benefits when their employment contracts were completed. SLATE also allegedly neglected to file Federal wage reports for participants and, because of this, 600 people who will be or have been laid off will not receive unemployment insurance benefits. SLATE also is allegedly attempting to negotiate filing amended wage reports to rectify the situation, but the State employment service agency generally has not allowed this.

We did not find that SLATE failed to comply with unemployment insurance laws when it provided for participants' benefits.

CETA, as amended, requires that public service employment (PSE) workers be covered by unemployment insurance to the same extent as the employer's other employees. Public Law 94-566 provided that, effective January 1, 1978, unemployment insurance coverage would be expanded to cover services performed for State and local governments, which brought most CETA PSE workers under the State unemployment insurance program.

In May 1977 Labor's Kansas City regional office issued Prime Sponsor Issuance 87-77, which indicated the changed status of PSE workers effective January 1, 1978. In January 1978 the regional office issued Prime Sponsor Issuance 61-78,

which indicated to prime sponsors their responsibilities in assuring that liable subgrantees submit reports required by the State employment security agency. It also indicated actions and assistance that would be needed by the State agency.

SLATE assisted the Missouri Division of Employment Security with identifying PSE employers and apprising them of the appropriate reporting procedures. By memorandum dated February 27, 1978, SLATE subgrantees were requested to attend an informational meeting on March 3, 1978, to discuss the filing of quarterly wage reports for PSE participants. The meeting was conducted by an agent of the Missouri Division of Employment Security. According to the SLATE Director, the agent outlined reporting requirements for PSE participants, provided information on the reimbursement procedures, discussed the assignment of numbers to employers, outlined guidelines for amending quarterly reports, and answered questions relating to these areas. He stated that attendees were also provided the special report forms for CETA wages and were told how to prepare and where to submit them.

Subsequently, SLATE provided a listing of title VI subgrantees to the Missouri Division of Employment Security.

SLATE also sent form letters dated January 26, 1978, to those subgrantees whose contracts terminated March 31, 1978, (see p. 34) stating that participants were encouraged to apply for unemployment insurance benefits through the Division of Employment Security.

In May 1978 SLATE initiated a survey of all subgrantees to determine whether they were providing unemployment insurance information or providing incomplete information to the Division of Employment Security. The survey was still in process when we completed our fieldwork.

SLATE comments

The SLATE Director stated that, despite the above efforts, several persistent problem areas surfaced resulting, in some cases, in participants either being denied benefits or experiencing difficulties in applying for them.

The Director identified the following as problem areas:

- Some subgrantees were not reporting participants' wages properly and had been slow to respond to requests for proper wage information.

- Some subgrantees did not have an employer account number with the State, so that the reports submitted by them had no meaning to the State.
- Some subgrantees did not provide unemployment insurance benefits to their regular employees. Sectarian agencies cannot, under State law, participate in the unemployment program. Labor regulations require that PSE participants be covered to the same extent as other employees.

The Director emphasized that the SLATE role is assisting, facilitating, and attempting to assure compliance by the CETA subgrantees; this is the role currently being undertaken by SLATE.

Division of Employment Security comments

We discussed the matter with the Missouri Division of Employment Security agent who conducted the March informational meeting at SLATE. He stated that the Division had asked for and received from SLATE lists of PSE employers. He stated that the Division had received appropriate reports from many PSE employers but had no way of knowing whether all PSE employers had filed the required reports. He stated that, if an ex-employee was denied unemployment benefits and filed the appropriate document, the Division would conduct an investigation to determine whether he was eligible for unemployment compensation.

Conclusions

SLATE has taken and is taking appropriate action to assure that liable CETA subgrantees submit reports for unemployment insurance coverage, as required by the Missouri Division of Employment Security.

SLATE has taken appropriate action to remind subgrantees whose contracts were terminated March 31, 1978, to encourage participants to apply for unemployment benefits.

Duties of Skill Center superintendent

It was alleged that the superintendent of the Arthur J. Kennedy Skill Center 1/ has been involved in employment and training programs for years, and that his job was recently split into two jobs. Questions arose as to who had the second job, how much each earns, and the responsibilities of each position.

The Skill Center superintendent stated that his duties have not been split into two jobs. He said that the two positions in question were his position and the position of the St. Louis Board of Education CETA supervisor.

The superintendent stated that the Skill Center table of organization was approved by the St. Louis Department of Personnel in July 1975, and provided for four administrative positions:

1. A Skill Center superintendent, who is responsible for the overall administration and supervision for the Center.
2. A business manager, who is responsible for ordering and storing supplies and equipment, inventory, maintaining accounting and fiscal records, and Skill Center staff personnel records.
3. An administrative assistant, who is responsible for setting up and supervising the cafeteria, the nurse, the building maintenance foreman, custodians, and the security staff.
4. A curriculum coordinator, who is responsible for supervising instructors, counselors, and participants and coordinating curricula.

The superintendent stated that the administrative assistant resigned in 1976, and the superintendent assumed the responsibilities for this position. He stated that the curriculum coordinator was reassigned in 1977, at which time the superintendent and the business manager jointly assumed the responsibilities of this position. He said that the

1/A classroom facility used under the CETA title I program to train CETA participants in certain skills (such as welding).

business manager, a Board of Education employee, resigned in 1977 and was replaced by another Board of Education employee who is assisting the superintendent with supervising all Skill Center staff and participants.

The Skill Center superintendent is paid \$19,903 annually. A \$20,171 budgetary line item is included in the Board of Education contract for the CETA supervisor.

The SLATE Director stated that, before his appointment, the organization table for the Skill Center included a superintendent and three administrative staff positions. These staff positions, he said, included an administrative assistant, a curriculum coordinator, and a business manager. He stated that the business manager was paid by the Board of Education under its CETA contract, and was responsible for the Board-of-Education-operated training programs located in the Skill Center. He also stated that the person holding this position was assigned there because he had considerable experience with contracting and fiscal control.

The Director stated that the current organization table for the Skill Center includes a superintendent and only one administrative staff person who is at the same salary level as the previous business manager. He stated that, like the previous business manager, he is paid by the Board of Education through its CETA contract. He stated that the position has been restructured and renamed as the Board of Education CETA supervisor and, while the individual's primary responsibility is still supervising Board of Education training programs, more emphasis has been placed on direct student contact.

The Director stated that the total supervisory staff has been reduced and the overall responsibilities between the two remaining positions have been shared. He said that savings from this move has amounted to, at minimum, \$27,000.

Conclusions

Based on our discussions with the Skill Center superintendent, it does not appear that his duties have been split into two jobs. It does appear that the responsibilities previously assigned to four administrators are now being carried out by two.

Nonfunding of subgrantee
until employee was discharged

It was alleged that funding for the Opportunity Clearinghouse was held up by the SLATE Director for 4 months--until a clearinghouse employee was discharged.

The President of Opportunity Clearinghouse, a CETA subgrantee agency, stated to the ex-Executive Director in a letter dated November 22, 1977, that:

"At your request and as the need may arise for you to exhibit this letter to others, I wish to set forth the events which led to your termination by the Board of Directors of the St. Louis Opportunity Clearinghouse * * *."

The letter described the Clearinghouse's organization and the ex-employee's involvement in Clearinghouse programs. With respect to his termination, the letter stated:

"You were terminated as of October 31, 1977 in response to a request made by * * * Director of SLATE. This request was made to the Board of Directors sometime earlier and was forcefully resisted by the Board of Directors which opposed it at its onset and continues to do so. Continued efforts were made by the Board of Directors to dissuade [the Director of SLATE] from his position, but all efforts were unsuccessful. Finally, when [the Director of SLATE] stated emphatically that he would refuse to fund the Clearinghouse's activities for the next fiscal year unless you were replaced as Director, and as the contribution of SLATE to our operating budget constitutes a substantial proportion of the total budget, the Board of Directors had no other viable alternative than to terminate your services--in order to allow for the continuation of the Clearinghouse operation that we so strongly support."

Formal complaint by ex-employee

The ex-employee filed a formal complaint in March 1978 with Labor's Kansas City regional office. He set forth a chronology of events which led up to his discharge, and stated that he believed the SLATE Director's actions were violations of the following:

1. Section 711 of the Comprehensive Employment and Training Act and of Chapter 31, Title 18, Section 665(b) U.S.C.
2. Federal procurement and contract regulations, including Federal Management Circulars 74-4 and 74-7 and Office of Management and Budget Circular A-95.
3. Title VI of the Civil Rights Act of 1964.
4. CETA Regulation 98.14, Basic Personnel Standards for Grantees.

The Regional Administrator responded to the complainant by letter dated June 2, 1978:

"In reference to Section 711 of the Comprehensive Employment and Training Act, we do not find any criminal violation on the part of SLATE, or the Director, * * * in requesting your termination as a condition of doing business with the Opportunity Clearinghouse. The specific situation you have outlined is not the one contemplated by 18 U.S.C. 665(b). However, if you wish to pursue a discrimination complaint under Title VI of the Civil Rights Act of 1964 or Section 98.21(b)(1) of the CETA Regulations, you may do so by filing your complaint with the Prime Sponsor's Equal Employment Opportunity Officer."

Our review of the complaint

We reviewed the ex-employee's complaint for possible legal violation under section 711 of the CETA statute (18 U.S.C. 665(b)) which, regarding contract renewals, states:

"Whoever, by threat of * * * refusal to renew a * * * contract of assistance under * * * [CETA], induces any person to give up any money or thing of value to any person (including such grantee agency) * * * [shall be fined or imprisoned]."

It does not appear that section 711 applies; that is, there is nothing in the facts reviewed by us to indicate that a kickback or thing of value was paid to any person (or grantee) in return for renewal of the community organization's assistance contracts. In other words, even if the

dismissed employee's personal services may be considered to be a thing of value, there is no indication that any demand was made that the value of those services or any other thing of value be given to another in return for renewal of the contracts in question.

SLATE comments

The SLATE Director stated that he, at no time, demanded the firing of the Executive Director.

The Director stated that Opportunity Clearinghouse was designed inhouse by SLATE's planning staff as a demonstration project for ex-offenders prior to his appointment. He said that, although the Clearinghouse was supposed to be an independently operated SLATE subcontractor, during its early stages such items as rent and salaries were paid directly from the SLATE administrative budget. He stated that the ex-employee participated in the design and creation of the Clearinghouse project and worked as a SLATE planner before becoming director of the new program.

The Director stated that decisions were made on project participation based on SLATE's efforts to comply with Labor's policies and regulations. He stated that the decisions were prompted by the following concerns:

- SLATE was required to bear as much as 90 percent of program costs even though there was to have been an equal sharing of the costs by other agencies delivering services to ex-offenders.
- The program's accounting books kept during the ex-employee's directorship were declared unauditible by the City Comptroller's office.
- \$31,000 required to be withheld for tax purposes was not escrowed. SLATE made the amount available to the Clearinghouse to avoid possible liability to itself and the Clearinghouse Board of Directors.
- Security at the Clearinghouse was not adequate, although a high-risk population was being served. A readily accessible check-printing machine and a number of stolen checks resulted in forged checks.

The Director stated that, in view of these concerns (primarily the condition of the program books), SLATE could

not in good conscience continue funding under the then-management of the program. To do so, he said, would have put SLATE in jeopardy of being in noncompliance with its federally mandated management duties.

Conclusions

The Executive Director of Opportunity Clearinghouse was discharged by his employer, a CETA subgrantee, and the agency was funded by SLATE after a new director was hired. Correspondence between the employer and the employee indicates that the employee was discharged at the request of the SLATE Director. The SLATE Director, however, denies that he ever demanded the discharge of the employee but indicated that he could not continue funding under the ex-employee's program management. In any event, we do not believe a legal violation under CETA section 711 occurred in the discharge of the employee.

Use of a specific subcontractor

SLATE allegedly channeled \$25,000 to an accounting firm with a stipulation that work be given to a specific subcontractor.

The contract with the accounting firm does not contain a stipulation that work be given to a specific subcontractor. It does contain the following provision:

"The proposal made by the Contractor to provide services pursuant to this Contract is incorporated by reference and made a part of this description of the scope of services to be provided."

The accounting firm's proposal states that it will subcontract with an independent consultant who is knowledgeable about CETA and prime sponsor operations. The proposal identifies the team participants and states that they will be assisted by others from the firm's staff and a CETA consulting subcontractor as required to complete the engagement. The proposal also states that staff and subcontractors are chosen for their specialized expertise on any engagement in which they are involved.

The accounting firm subcontracted with a former SLATE employee who was president of a management consulting service in St. Louis. We discussed the subcontractor's hiring with a team participant who supervises the firm's local management consulting services staff. She stated that the

accounting firm had not been told to use the individual's services by any SLATE or city official as a condition of receiving a contract. She stated that such a requirement would have caused the accounting firm to withdraw its proposal. She estimated that payment to the subcontractor ranged between \$15,000 and \$17,000.

We also discussed the matter with the subcontractor. He also stated that the use of his services was not a condition for awarding a contract to the accounting firm. He stated that he had discussed conducting a poll with the SLATE Director about the Director's viability as a political candidate. However, he stated that the idea never materialized.

Conclusions

The contract with the accounting firm does not stipulate that work be given to a specific subcontractor. Based on our discussions with accounting firm and subcontractor representatives, it does not appear that any SLATE or city official told the accounting firm to use the subcontractor's services as a condition of receiving a contract.

Program participant intake services

It was alleged that program participant intake services have historically been carried out by the community service agencies, but SLATE is trying to centralize this process. We were asked to discover why this was done and what the justification was for it.

SLATE justification for centralizing intake services

The SLATE Director stated that, shortly after being appointed to his position, he received numerous complaints and concerns from subgrantees about the operation of the program participant intake services system known as the recruiting/coaching/intake (RCI) system. He said that several subgrantees that complained during our visit were among those complaining about the previous decentralized system. Upon review, he said, it was determined that there were substantial shortcomings in the previous system. Valid shortcomings, according to the Director, were:

- Some job developers served one geographical area while others were unattended.

--Recruiting shortcomings resulted in the constant reentry of some people in the system, which denied opportunities to potential participants in the broader community.

He stated that there were complaints about the lack of controls over the availability of training and employment opportunities throughout CETA and a disparity in the availability of this information to all potential participants. In addition to the complaints, he stated that there were very strong allegations and much disagreement expressed by community service agencies about the quality of each other's programs.

The Director stated that a system was designed to handle the problems while under extreme Department of Labor pressure to hire 3,000 public service employees. He stated that it was unfortunate that, rather than focusing on the positive aspects of the new system, some have chosen to accentuate the negative.

Formal grievance

SLATE received a formal grievance from four community organizations on January 10, 1978, about CETA RCI functions. The grievance stated that the client flow system being implemented by SLATE was a substantial modification of the plan ratified by SLATE's advisory council and may be a violation of Labor regulations applicable to the use of such councils and the publication of grant applications prior to submission to Labor.

There were four specific points:

1. The RCI centers no longer have the authority to activate potential participants into the program.
2. Job placement must be made through the State employment service rather than by placement specialists in the community service organizations.
3. The RCI centers can no longer refer clients directly to job developers and on-the-job training vendors.
4. The RCI centers are no longer allowed to assign an employee to follow the progress of a potential participant through the system.

The SLATE Director responded to each point. In his response, he stated:

- Under the old system (where RCI centers activated potential participants) potential participants were being activated when there were little or no service opportunities.
- SLATE would receive approximately \$1 million in State employment services if the State makes the job placements; SLATE would not have to pay for these services, and the dollar savings were worth the change.
- Under the previous system, where RCI centers referred clients, potential participants did not have access to the total services of job development and on-the-job training vendors.
- Although the RCI center could no longer follow a potential participant, a subgrantee employee could follow a potential participant's process through the system.

Two of the four community organizations did not feel that the Director's response fully resolved the grievance, and in April 1978 they appealed to Labor's Kansas City Regional Administrator. The appeal stated that the system as it was being implemented is satisfactory in regards to points three and four; however, points one and two remain unresolved.

The appeal stated that the basic ground for the grievance was that the change of function represented a major modification of the 1978 plan, but it was not presented to the advisory council as required by Labor regulations.

The appeal concluded with the statement:

"We present no rigid demands as to particular details of client processing, as long as the total system includes the community based organizations as essential parts of the system. We are willing to discuss further with [the SLATE Director] any changes he might be willing to make which would assure us of this role, and offer further suggestions of our own in a spirit of cooperation. We request [Labor's] participation in such discussions, since our efforts with [the SLATE Director] have been unsuccessful."

The appeal was being considered by the regional office during our visit in June 1978.

CETA regulations

CETA regulations require each prime sponsor to appoint a planning council and to utilize the council when developing and modifying a CETA grant application. The regulations provide that the council is advisory to the prime sponsor; the council's advisory authority does not free the prime sponsor from its final decisionmaking responsibilities under CETA.

CETA regulations also require prime sponsor applicants to make public provisions of the grant application before they submit them to the Labor regional office to create public awareness of the proposal and to obtain comments from interested parties. The prime sponsor applicant is required to inform any party that submits a substantive written comment of any plan revision that will be made based on the comment along with when the prime sponsor applicant made the determination. Copies of all written comments must be provided to the planning council and to the Governor of the State.

Conclusions

It appears that SLATE's justification for centralizing program participant intake services was based on shortcomings of the previous system as they were voiced by CETA subgrantees. A formal grievance (based primarily on the grounds that SLATE's plan was not presented to the advisory council) is being appealed to Labor's regional office. However, only two of the four original complainants are party to the appeal, and they are presenting no rigid demands; they only seek discussion with the SLATE Director.

Since the advisory council function is to advise the prime sponsor, it is up to the prime sponsor to make final decisions about CETA program management. It appears that this is the role SLATE is following in centralizing the intake services.

Possible conflict of interest

An article in a local newspaper alleged that the SLATE Director has or has had connections with four present or potential service delivery agents, that these connections

may create conflicts of interest for the Director, and that contracts in force or pending for the four agents totaled about \$675,000.

The April 1978 newspaper article stated that records on file in the Missouri Secretary of State's office showed that the SLATE Director has had close relationships with at least four of the firms whose contracts he approved. The article stated:

- The Director was the attorney who filed incorporation papers for two service delivery agents whose \$122,165 and \$203,202 contracts had been approved by SLATE but were being held up by the city comptroller because funds were unavailable. The papers were signed in August and November 1977--several months after he was appointed to the Director's position. The Director stated that he received no money for incorporating the firms, and that it was done as a favor for friends.
- A lawyer in the Director's former law firm filed incorporation papers for a service delivery agent with a \$95,816 SLATE contract. The Director said that he did not recommend the group to his former law firm, and he severed his relationship with the law firm in May 1977.
- The Director served as vice president of a service delivery agent that has a \$254,511 SLATE contract. He was last reported as vice president in State records on March 1, 1977. The Director said he resigned the post in early 1977 to avoid any appearance of a conflict of interest.

We found that all four of the contracts in question were signed. However, the two contracts involved in the cases in which the Director filed incorporation papers have not been released to the subgrantees by SLATE.

We discussed the newspaper article with the SLATE Director and the city counselor. The SLATE Director confirmed that the facts of the cases were correctly reported. He stated that before becoming SLATE Director he had many contacts with individuals and agencies, some of whom may now or in the future be involved in the provision of employment and training services. He said that he has performed legal services for many individuals and groups as an attorney; however,

the act of incorporation does not itself bestow any financial interest or business interest upon the incorporating attorney. It is one of many legal tasks for which one would seek an attorney's assistance, he stated, and the fact that he or the firm with which he was associated performed legal work for an organization does not automatically suggest a bias for the organization, nor does it suggest conflict of interest where no financial or business interest accrued to him personally.

He also stated that voluntary service as a member of the Board of Directors of a nonprofit corporation does not suggest an automatic bias or infer that some monetary interest has accrued or will accrue to the benefit of the board member. His past volunteer service record goes to his credit as an individual, he said. He stated that there is no conflict of interest by virtue of the past relationships referred to by the allegation.

The city counselor stated that as far as the City of St. Louis was concerned a conflict of interest did not occur if the Director did not receive payment for his service.

Conclusions

Based on our limited inquiries, we do not believe that the situations as discussed above, if reported correctly in the newspapers, would necessarily create conflicts of interest on the part of the SLATE Director.

ALLEGATIONS ABOUT ACCOUNTING FOR CETA FUNDS

Accounting for expended and intermingled funds

SLATE allegedly failed to accurately account for funds expended in each title program under its direct supervision. SLATE also allegedly intermingled CETA title II and VI funds.

We did not find that SLATE failed to accurately account for funds expended under each program's title; neither did we find that SLATE had mingled CETA title II and VI funds. We did find that administrative costs are being allocated among the CETA title grants by an unacceptable method for distributing pooled costs.

Accounting for funds expended

The St. Louis comptroller is responsible for CETA funds. Based on general information we obtained, the system appears to have sufficient controls, although this may not preclude problems with individual transactions. Subgrantees are given initial advances, and additional funds are provided to the subgrantees based on monthly certifications of expended funds. Subgrantee records are subject to audit by the city comptroller's office.

The comptroller's office maintains a separate account for each grant. Payments from these accounts are authorized by disbursement vouchers certified by SLATE. The comptroller's office prepares the financial status reports on CETA grants, which are sent to the SLATE Director for signature and submission to Labor's regional office.

Intermingling of CETA
title II and VI funds

We did not find an intermingling of CETA title II and VI funds.

We believe the allegation may have resulted from transferring public service employment participants from the title VI program to the title II program. This occurred in at least one case, when title VI resources were not available to extend the subgrant beyond the March 31, 1978, termination date, nor could the funds cover increased activities agreed to by SLATE and the subgrantee. Labor's Kansas City region informed the SLATE Director in April 1978 that the participants could be picked up under title II subgrants when all title VI funds had been spent, providing the participants were also eligible for the title II program when they were determined eligible for the title VI program.

Allocation of administrative costs

SLATE was allocating administrative costs among CETA title grants so that legal limitations relating to the maximum allowable administrative, training, and support service costs were not exceeded, rather than ensuring that the legal limitations are not exceeded as well as ensuring that each title bears its equitable share of such costs.

CETA legislation and Labor regulations require prime sponsors to spend at least 85 percent of their public service employment funds on participants' wages and fringe benefits. The remaining 15 percent is the maximum allowed for administrative, training, and support services costs. The regulations limit the administrative costs for nonpublic service employment to 20 percent of total costs, unless a justification for exceeding this limit is provided in the grant application. Federal Management Circular 74-4 requires that federally assisted programs bear their fair share of allowable and allocable costs and prohibits shifting costs among Federal grant programs to avoid legal restrictions. CETA regulations require local government prime sponsors to develop a cost allocation plan that insures that costs are equitably allocated among the various CETA title grants, but they are to submit the plan to Labor for approval only by request.

Labor's Kansas City region requested in December 1977 that SLATE's allocation plan be submitted for approval. The request letter stated that SLATE had been late in allocating title I costs in fiscal year 1977 and had overbudgeted administrative costs for title I in fiscal year 1978. The region stated that, without such a plan and appropriate accounting, financial reports would reflect only estimates or one grant would assume all administrative costs, thereby totally distorting that title's reports.

The city comptroller's office and SLATE have developed a cost allocation plan to allocate costs to the various title grants; however, the plan had not been submitted to the region for approval as of June 19, 1978. The comptroller's office adjusted the CETA accounts for titles I, II, III, and VI in accordance with this plan, and SLATE reported grant expenditures through the second quarter of fiscal year 1978 accordingly.

Under this allocation plan, the city comptroller's office determines the amount of administrative expenses which are to be directly charged to each CETA title grant and the amount which is to be pooled. The direct charged amounts are deducted from the maximum amount of administrative expenses that are allowable, based on legal limitations. The difference is the grant's unused portion of the maximum allowable amount. Then the pooled expenses are allocated to the grants by the ratio of the unused portion of maximum allowable administrative costs in each title to the maximum allowable administrative costs for all titles.

It is at this point that the SLATE system, intentionally or unintentionally, circumvents the legal limitations on administrative costs. Consider, for example, that if directly charged administrative expenses in any title equaled the maximum allowable amount, that title's share of pooled costs would be zero. Pooled costs include such items as general administration salaries, rental and utilities costs, and other costs logically and equitably chargeable in some part to each title.

Although the allocation plan had not been submitted to the region as requested, regional and SLATE correspondence indicates that the region may be aware of the procedure being followed. The Labor representative stated in an April 1978 report that he reviewed the cost allocation process and again requested that the plan be submitted. Also, the SLATE Director stated in a May 1978 letter to the city comptroller that the procedures were developed by the comptroller's staff in concert with SLATE and advice and counsel from representatives from Labor.

A representative from Labor's Kansas City region stated that advice and counsel had been given, but the region could not formally judge the plan until a formal submission was made. Representatives from the city comptroller's office, SLATE, and Labor agreed that the method used in allocating pooled costs could circumvent the administrative cost limitations and was not an equitable method of cost allocation. We did not address whether or not administrative cost limitations have been exceeded without an equitable method for allocating pooled costs.

SLATE comments

The SLATE Director stated that the city comptroller is the city's chief fiscal officer and has the ultimate responsibility to account for expended funds. He also stated that fiscal information had been requested from the comptroller's office on numerous occasions to aid the program administration staff in developing inhouse fiscal awareness, but the information has been irregular or not made available.

Conclusions

SLATE's cost allocation system:

--Circumvents the legal limitations on the amount of administrative, training, and support service costs which can be allocated to the CETA title grants.

--Results in the allocation of administrative costs in a manner which does not ensure that each title bears its equitable share of such costs.

Such a system violates the provisions of Circular 74-4 as it relates to the equitable sharing of costs by federally assisted programs and to the prohibition against shifting costs to avoid legal restrictions.

Recommendations

We recommend that the Secretary of Labor have Labor's Regional Administrator vigorously work with SLATE to develop an acceptable system for allocating administrative costs to CETA grants. We also recommend that SLATE's administrative costs incurred during fiscal year 1978 be reallocated under the new system and that Labor recoup any CETA grant monies where the legal limitations were exceeded.

Labor and sponsor comments and our evaluation

Labor stated that, after our investigation Labor's Federal representative, in working with SLATE and the St. Louis comptroller's office, initiated efforts to change the allocation plan from the one which we objected about to one which is acceptable to Labor. Labor also stated that the allocation plan now prorates the costs to be allocated to the direct staff salaries of the prime sponsor by title.

Labor also stated that a recent audit of SLATE which reviewed fiscal year 1977 records and included a partial audit of fiscal year 1978 records found no instances where the legal limitations of the spending of program funds were exceeded. Labor stated that, as regularly scheduled audits find any such instances, it will take appropriate actions to recoup funds.

The recent audit referred to above was conducted by Labor's field office of the Office of Special Investigations and covered the period April 1, 1975, to March 31, 1978. The field office's report stated that the procedure used by the city comptroller's office and SLATE to reallocate administrative expenses among the CETA grants was not acceptable to

Labor. The field office stated that, with the system in effect during the period audited, it was possible that no grant would ever exceed the allowable administrative expenses by grant, which would benefit the prime sponsor but does not allow for an accurate allocation of administrative expenses to the grant. The field office recommended that SLATE

- develop an allocation of joint costs based on an acceptable method prescribed in Circular 74-4 and
- distribute joint costs based on the direct charged costs until this new method is developed.

In rendering an opinion on the prime sponsor's CETA financial statements, the field office qualified its opinion on questioned costs and administrative deficiencies discussed in its report.

Since the cost allocation system was determined to be unacceptable to Labor, whether the legal limitations were exceeded for fiscal year 1978 is yet to be resolved.

Labor's regional office stated that it had advised the prime sponsor that allocation of costs based on direct staff salary costs would be acceptable for the fiscal year 1978 cost allocation. While this temporary allocation system differs from that recommended by the field office, the head of that office stated that he considers this temporary allocation system to be adequate until an allocation system based on an acceptable method prescribed in Circular 74-4 is developed. We agree.

City of St. Louis comments

The City of St. Louis stated that, in addition to the causes discussed in our report, allocating administrative costs has been a difficult problem for prime sponsors around the country, and the 1978 CETA amendments allow all funds received under any title of the Act, which are allowed to be used for administrative costs under the provisions of the title under which the funds are received, to be pooled by the recipient so they can be used to administer all programs under the act. The City stated that this fact and the proposed Labor regulations implementing the provision recognize the problem that prime sponsors around the country were having in dividing a Director's time and allocating a Director's salary across any number of titles for programs operating over

a period of 18 months, or operating over a 12-month period or shorter, with the allocation formula having to be changed almost on a month-to-month basis.

The City stated that it had been involved for a substantial time with a national big eight certified public accounting firm to develop an effective management information system and would continue to do so to achieve our recommendation.

Overcommitments during economic stimulus buildup

SLATE allegedly had entered into contracts totaling \$7 million more than its authorization allowed, and the city comptroller approved the contracts but was not aware that the authorization was exceeded. It was also alleged that service delivery agents signed 1-year contracts with SLATE, but the SLATE Director withheld funds for 3 months and then terminated these contracts at the end of the contract period, even though the delivery agents had not had funds for the entire contract period. It was also alleged that potential service delivery agents negotiated contracts with SLATE, but after negotiations were supposedly successfully completed the agents never heard from SLATE.

More than half of St. Louis' CETA titles II and VI public service program funds were provided by the Economic Stimulus Appropriations, 1977 (Public Law 95-29), which was approved on May 13, 1977. The economic stimulus funds that St. Louis received more than doubled the size of the City's PSE programs.

Projections on use of funds

SLATE and the city comptroller's office made several projections of funds committed under the title VI program during fiscal year 1978. The projections varied from the city comptroller's office projecting a \$5.45-million overcommitment to SLATE's projecting a \$502,000 undercommitment.

The amount of SLATE's fiscal year 1978 title VI grant was increased several times. On November 21, 1977, when the grant amount was \$24.16 million, the city comptroller's office informed the SLATE Director that the comptroller's office projected an overcommitment of \$4.2 million, which included unreleased contracts of \$2.3 million.

The grant amount reached its maximum of \$25.16 million in February 1978. Both SLATE and the city comptroller's office based projections on this amount after adjusting for fiscal year 1977 expenditures. SLATE projected an overcommitment of \$1.93 million while the city comptroller's office projected an overcommitment of \$5.45 million. The difference was caused by different projections related to PSE jobs with city agencies. Neither projection included unreleased contracts. During our review we found that the amount of unreleased contracts totaled \$2.43 million in May 1978.

The SLATE Director projected an under commitment of \$502,000 in May 1978.

Committing available funds

SLATE's planned hiring schedules were changed to reflect the increased available funds as the grant amount increased. Based on correspondence obtained from Labor's Kansas City regional office, it appears that SLATE had difficulty with meeting the planned hiring schedules and committing available funds at first, but subsequently it hired faster than it anticipated, which prompted requests for additional funds from the regional office. A chronology of significant events follows:

- The Labor representative expressed an urgency for filling slots to a SLATE representative, according to the Labor representative's May 5, 1977, trip report.
- A letter dated July 8, 1977, from the Regional Administrator alerted the mayor that the number of PSE participants employed was lower than the number planned for; this was perceived as a serious problem. He requested that steps be taken to increase the hiring of PSE participants to insure meeting hiring goals.
- Another letter dated August 5, 1977, from the Regional Administrator informed the mayor that, while reasonable progress had been made, continued concentrated effort was necessary to meet hiring schedules in future months.
- A letter dated August 12, 1977, from the Regional Administrator informed the mayor that the City of St. Louis had failed to achieve 70 percent of its

hiring schedule for the PSE program between May 13 and July 31, 1977, and that Labor was considering reallocating some of the funds to another prime sponsor.

- On the same date the Regional Administrator informed the Governor of Missouri by letter that he had advised the mayor that unless enrollments were brought into accordance with approved hiring schedules within 30 days, he had no other recourse than to reallocate some of the funds to another prime sponsor.
- An internal Labor regional office memorandum on an August 17, 1977, assessment as a followup to the August 12 letter to the mayor stated that the prime sponsor should come close to its hiring goal of 1,506 by August 31, 1977. The regional office estimated an underexpenditure of \$479,450 as of July 31, 1977. The assessment report also discussed a revised hiring schedule to serve a maximum of 2,874 participants based on a grant amount of \$24.16 million. At the time of the assessment the grant amount was only \$6.9 million.
- The Regional Administrator formally notified the mayor of the assessment results in a letter dated September 9, 1977. He stated that it would be necessary for SLATE to enroll participants in projects as rapidly as possible not only to meet but to exceed, if possible, its hiring goals in order to make up for the previous underenrollments.
- In a letter of October 11, 1977, the mayor informed the Regional Administrator that the \$24 million had been obligated and requested additional funding.
- In a letter dated October 14, 1977, the mayor protested to the Regional Administrator about Labor's stimulus program requirement to maintain the same participation level from the end of December 1977 through September 30, 1978. The mayor stated that, pursuant to directives issued by Labor, SLATE's PSE programs were designed to rapidly hire as many individuals as possible during the initial stages of the economic stimulus buildup. He stated that SLATE was previously instructed by Labor to fill these positions as fast as possible within the constraints of the available funds. He stated that

Labor further indicated that SLATE should plan to have all funds spent by September 30, 1978, and that no projects may last longer than 12 months. He stated that with this in mind hiring participants on an accelerated schedule began early in the program. He stated that the assumption was that those project positions would not be refilled after 12 months--meaning that the first projects begun in June and July 1977 would end in June and July 1978. He stated that to compensate for these projects expiring and to utilize all available funds additional projects were authorized and, as a result, the funds had been fully committed. The mayor stated that the stimulus program requirement to change and revise the original monthly hiring goals meant that SLATE's plans for terminating participants must change in order to meet these new goals. This new hiring schedule, he stated, would mean laying off approximately 4,000 people at one time, as opposed to phased termination. The mayor stated that an additional 1,500 participants could be hired if additional funds were available.

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Although it appears that Labor applied pressure to SLATE to meet planned hiring goals, the requirements of the stimulus program were announced by Labor well in advance. The requirements were published in July 1977 in the region's Prime Sponsor Issuance 121-77 and were discussed with all prime sponsors in a June 1977 meeting in Kansas City.

Status of title VI program

In February 1978 the regional office increased the title VI grant by \$1 million--to \$25.16 million. The grant included \$5.03 million for SLATE's fiscal year 1977 program and \$20.13 million for the fiscal year 1978 program.

According to SLATE's CETA financial status report for March 31, 1978, and SLATE's projected expenditures to that date, the title VI program was running a \$1.43 million deficit:

Planned expenditures through 3/31/78	\$10,416,684
Actual expenditures through 3/31/78	<u>11,846,743</u>
	<u>\$(1,430,059)</u>

However, according to SLATE's May 1978 projection, after administrative costs had been allocated under the procedure discussed on pages 24 through 29 there will be an under-commitment of \$502,000.

Regional comments

We discussed the status of the title VI program with Labor's regional officials in late June 1978. They stated that they believed that SLATE would be able to end the fiscal year 1978 program within the constraints of available funding. They stated that the City of St. Louis would be responsible for funding any program overcommitment.

Actions taken to reduce program

The SLATE Director has taken several steps to reduce the possibility of ending the program year in an overcommitted status:

- Contracts with a March 31, 1978, termination date were not extended, even though the delivery agents had not had funds for the entire contract period. (See p. 34.)
- A form letter dated November 4, 1977, sent to contracting agencies stated that, since their contract was negotiated, SLATE had been directed by Labor to modify its hiring schedule. The letter requested a meeting to discuss the the status of their pending proposal.
- Title VI contracts totaling \$2.43 million were signed but not released to subgrantees.
- Form letters dated December 14 and 30, 1977, were sent to request-for-proposal respondents, stating that SLATE had been directed by Labor to revise its hiring schedule and that due to the size of their proposal and SLATE's budget constraints SLATE would not be able to fund their proposal or a modified version thereof.
- A form letter dated December 16, 1977, requested title VI subcontractors to not refill positions under the program.
- A form letter dated January 18, 1978, instructed recruiting/coaching and intake subcontractors not to fill or refill any staff position in its title I or title VI contract without written authorization by the SLATE Director.

SLATE comments

The SLATE Director stated that in October 1977 the city comptroller expressed concern that too much of the title VI PSE money had been obligated, which might possibly result in an overexpenditure of funds. The Director stated that this concern did not adequately consider the underexpenditure rates in existing contracts. He stated that, notwithstanding the above, an effort was made by SLATE, in conjunction with Labor, to work out a solution that would satisfy all parties--including the city comptroller. He stated that initially SLATE placed a halt on previously approved new hires to assure the continued availability of funds for current workers, and that thereafter a more equitable plan was developed to allow resumption of hiring.

The Director further commented that on May 22, 1978, correspondence was forwarded to the city comptroller which, based on actual expenditures through March 1978, projected underexpenditures in both titles II and VI through the close of the fiscal year. He stated that at that time there were rumored estimates of \$7 million in over expenditures.

Termination of contracts

Twenty-two title VI contracts with a March 31, 1978, termination date were not extended, even though the delivery agents had not had funds for the entire contract period. Four of the contracts had an effective date of April 18, 1977, and 18 had an effective date of May 23, 1977.

We discussed the March 31 contract termination with four subgrantees; their contracts were not signed by the city comptroller until July 1977. However, according to a rubber stamp on the contracts three were not received in the comptroller's office until sometime in June 1977 and one was received on July 20, 1977. One subgrantee had no complaints.

The contract of another subgrantee had been modified to extend the termination date from March 31 to September 30, 1978, and to increase the contract amount from \$78,524 to \$378,015. However, the subgrantee official stated that a SLATE representative informed them not to hire any new people, not to fill any vacancies, and that the only participants who would be able to work beyond March 31, 1978, were those hired on or after August 15, 1977, and prior to October 1, 1977. The subgrantee official stated that 15 participants were

terminated on March 31, 1978, and because of these terminations the subgrantee was not able to meet commitments made to the community.

A third subgrantee wrote a letter "to whom it may concern," which was made available to us. This letter stated that the subgrantee received a letter from SLATE in January 1978 indicating that its contract would terminate on March 31 and that this came as a total surprise, because the subgrantee had been assured by a SLATE representative that the contract would be extended through June 30, 1978. The letter further stated that the subgrantee was "shocked and appalled to have so short a time to prepare our workers for termination."

The fourth subgrantee expressed some dissatisfaction with all of the contract negotiations that it went through with SLATE. The subgrantee had received a written authorization from the SLATE Deputy Director, dated August 5, 1977, to add 17 participants to its contract, which had a March 31, 1978, termination date. At the time of our visit, SLATE had negotiated several changes to the contract to modify the termination date and contract amount. SLATE had also negotiated a contract to transfer the title VI participants to title II. It was the subgrantee's understanding that the city comptroller would not sign any of the modifications.

We found, however, that the subgrantee's title VI contract was modified in May 1978 to terminate on February 28, 1978, and a title II contract for \$90,616 was awarded in May 1978 covering the period March 1, 1978, to September 30, 1978.

The SLATE Director stated that, although SLATE had negotiated contracts to begin in April 1977, money was not provided to SLATE until July 1977. He stated that 3 months, more or less, were in fact lost in contracts scheduled to begin in April, but this loss was not occasioned by SLATE and funds were not intentionally withheld from service delivery agencies.

Our review of letters of credit showed that as of May 18, 1977, title VI grant funds amounting to \$6.89 million had been made available to SLATE. SLATE's reports to Labor's Kansas City region indicated that expenditures through September 30, 1977, were \$5.03 million.

Negotiation of contracts

The SLATE Director stated that the allegation that potential service delivery agents never heard from SLATE after negotiating contracts was not true. He stated that a form letter dated December 30, 1977, was sent to request-for-proposal respondents. The form letter stated that SLATE had been directed by Labor to revise its hiring schedule and that, due to the size of their proposal and SLATE's budget and time constraints, SLATE would not be able to fund their proposal or a modified version thereof.

We visited three potential service delivery agents who negotiated contracts with SLATE.

One of the subgrantees negotiated and was awarded a \$245,586 title VI contract by SLATE for the period October 1, 1977, to September 30, 1978. The city comptroller's office issued an advance of \$20,185 on the contract but recalled it in a letter dated October 31, 1977, because it was that office's understanding that the contract had not been released by SLATE and was being reevaluated prior to release. This contract had not been released by SLATE as of June 1978.

A second potential delivery agent negotiated a \$37,269 title VI contract with SLATE which covered the period October 1, 1977, to September 30, 1978. The SLATE Director informed the subgrantee by letter dated March 30, 1978, that the contract had not been signed because, when SLATE was attempting to complete the contracting process, SLATE and the city comptroller's office were assessing current and planned contractual commitments through the end of the fiscal year. The Director informed the potential delivery agent that it was regretful that SLATE would not be able to enter into a fiscal year 1978 contract with it because its proposal was considered among the best to assist in providing temporary employment to a number of unemployed city residents.

We found that the contract negotiated with this agent has been executed and is on file in the city register's office. It was signed by the SLATE Director on September 16, 1977, and the city comptroller on October 27, 1977. This contract had not been given to the subgrantee by SLATE as of June 1978.

A third potential service delivery agent stated that it had negotiated a contract with SLATE and understood that it only needed to be signed by the city comptroller. The agent received a November 7, 1977, letter of apology from SLATE, stating that its application was lost in transit between the city comptroller's office and SLATE. The letter requested the agent to resubmit the needed documents in order to process a contract. However, the agent received a form letter dated December 14, 1977, stating that SLATE had been directed by Labor to revise its hiring schedule to maintain the same number of people on board for the period December 1977 to September 1978. The letter stated that, due to the size of the agent's proposal and SLATE's budget constraints as a result of Labor's directive, SLATE would not be able to fund the proposal or a modified version thereof.

Conclusions

SLATE overcommitted itself for title VI funds by several million dollars, apparently because of pressure from Labor's regional office to commit available funds or have the funds reallocated to another prime sponsor. SLATE has taken several steps to reduce the possibility of ending the program year in an overcommitted status after this matter was brought to SLATE's attention by the city comptroller's office. SLATE's most recent projection indicates that there will be an undercommitment in title VI at the end of fiscal year 1978, and Labor's regional officials believe SLATE will be able to end the fiscal year program within the constraints of available funding.

Because SLATE's current undercommitment was projected after administrative costs were allocated under an unacceptable method of distributing pooled costs, we cannot attest to the projection's accuracy.

ALLEGATIONS ABOUT BUILDING MANAGEMENT

Charges to administrative costs for rental and remodeling of office space

It was alleged that there were excessive charges to the administrative costs account for the rental of office space. It was alleged that the SLATE Director moved the agency's office from a municipally owned structure to a considerably higher cost privately owned rental building. It was also

alleged that the Director entered into a 5-year lease on a building that had been unoccupied for 5 years and that the rent on the prior building was \$20,000 per year and the new rent was \$150,000 per year. It was further alleged that the privately owned Lindell Boulevard building SLATE has contracted to move into was to be remodeled at a cost of \$20,000 and that half of the amount was to be paid by the City of St. Louis and half by the realtor. We were asked to discover what remodeling was done, who paid for it, and what the cost was. It was also alleged that the Director of SLATE might have remodeled his private office at the Skill Center. We were asked to discover what was done, who did it, what the cost was, and what funds were used.

We found that SLATE moved its administrative offices housed in five separate locations to a centralized location at 3800 Lindell Boulevard. We found also that SLATE renovated the building at 3800 Lindell Boulevard at a net cost of about \$42,000 without obtaining the required approval from Labor's regional office. We also found that private toilet facilities were provided in the Director's office at the Skill Center at the request of the prior SLATE Director.

As previously discussed, we did not address whether or not administrative cost limitations have been exceeded in the absence of an equitable method for allocating pooled costs.

Validity of SLATE's move from a
city-owned to a privately owned building

Before being moved to 3800 Lindell Boulevard, SLATE's administrative offices were located at the Arthur J. Kennedy Skill Training Center (a city-owned building at 2825 North Market Street) and in privately owned buildings at four other locations in St. Louis.

The 3800 Lindell Boulevard location, which had been unoccupied for 2 years, was leased effective October 24, 1977, for a period of 5 years--for \$160,000 the first year and \$150,000 for each of the remaining 4 years. According to the lease's terms the lessor is to pay the cost of air conditioning and other electricity consumed on the premises. The lessor was also to pay the cost of redecoration and repairs necessary to fit the premises for occupancy, up to \$20,000. The lease was signed by the lessor and the city comptroller. Although the lease does not indicate that STATE was to pay any part of the redecoration and repairs, a representative of the city comptroller's office stated that the additional \$10,000

rental in the first year was to be used by the lessor for this purpose over and above the \$20,000 provided for in the lease.

The lessor confirmed that SLATE was to reimburse him \$10,000 of the cost of redecoration and repairs; however, SLATE was to pay an equal share of the \$20,000 provided for in the lease.

A city comptroller representative determined that the cost of the lease was reasonable. He stated that his determination was based on contacts with sources he believed to be reliable, and he specifically identified a local real estate management firm and a local bank. However, he stated that he did not document his determination of reasonableness. We could not determine the reasonableness of the lease cost because of the lack of documentation.

Spatial analysis by consultant

The SLATE Director provided us with a consultant's spatial analysis report, dated September 7, 1977, which stated that the analysis was to determine the adequacy of office space occupied by SLATE, the degree of efficiency in operation resulting from the existing spatial arrangement, and the costs of the office space then in use. The analysis was to make recommendations for improvements to the existing arrangement, which would increase efficiency, decrease costs, and increase the effectiveness of the delivery of client services.

The study findings were summarized:

"Currently, SLATE occupies offices in five separate locations, with each office location providing a different client service, or patron of client services. However, there is some considerable duplication of facilities resulting from dispersed location of these five offices. There also exists wasted space and unmet needs for expansion due to inflexibility of the total space occupied, again resulting from dispersed office locations. In addition to physical space problems, there is a very real obstacle to efficient service to clients in that each client must, in most cases, in the course of being served, travel a maze-like route among offices before being allowed to enter training or employment."

The study concluded that the most logical action for SLATE was the consolidation of its five offices to a centralized location. The study also noted that the Arthur J. Kennedy Skill Training Center was conceived, designed, and built to accommodate training with only limited space for administrative offices. The study recommended the immediate consolidation of SLATE offices at a location centrally located in the city.

The study included a listing of the space used and its costs:

<u>Location</u>	<u>Rental</u>	<u>Utilities</u>	<u>Total</u>
2825 N. Market St.	\$ 48,000	a/\$8,500	\$ 56,500
535 & 543 N. Grand Ave.	15,300	(b)	15,300
607 N. Grand Ave.	10,392	(b)	10,392
4144 Lindell Blvd.	11,280	(b)	11,280
2208 Washington Ave.	<u>42,900</u>	<u>(b)</u>	<u>42,900</u>
Total for all locations	<u>\$127,872</u>	<u>\$8,500</u>	<u>\$136,372</u>

a/16.7 percent of \$51,000 annual utility costs allocated to the SLATE administrative functions based on square feet of space used.

b/The cost of utilities was included in the rent for the other locations.

The study recognized that SLATE did not actually pay the \$48,000 rental for the 2825 N. Market Street location (Skill Center), a city-owned building. The consultant's rationale for including the \$48,000 in his computations was that this cost would have to be borne if additional skill training programs to be implemented could not use existing space and had to rent comparable space elsewhere.

The Skill Center superintendent stated that the Center reached a maximum of 13 classes in 1976. Since that time, he said, the classes conducted by the ironworkers, cement masons, and carpenters have been terminated. Participant enrollment, according to the superintendent, is at capacity, with a waiting list in all but two areas, and 178 participants are currently in training. He stated that there are six unused shops at the Skill Center, and the Center is investigating several training considerations to fill them.

The location at 4144 Lindell Boulevard is occupied by Opportunity Clearinghouse, a subgrantee agency. SLATE's predecessor agency started paying the rent for Opportunity Clearinghouse in November 1976 as part of the contribution of the joint venture of a cooperative operation with three other agencies in providing employment services to ex-offenders. SLATE is continuing to pay the rent for Opportunity Clearinghouse.

The location at 2208 Washington Avenue was occupied by the Singer Corporation, which provided an assessment service to SLATE clients until September 30, 1977. The contract provided for 22 full-time positions in providing the service and called for handling 45 referrals per week. Effective October 1, 1977, the SLATE Director contracted for this service through HDC. The service continued to be provided from the 2208 Washington Avenue location until the move to 3800 Lindell Boulevard in December 1977. The HDC contract provided for 12 full-time positions and called for handling 20 referrals per week. As previously discussed, one of the positions is filled by the Director of Youth Services, who is not involved in providing assessment services. Nine of these positions were filled with ex-Singer employees. The contract specifies that SLATE is responsible for the technical aspects of the program while HDC is responsible for the administrative functions (such as payroll).

During the period October 1 through December 31, 1977, the rent for the 2208 Washington Avenue location was paid by HDC from a budgetary line item of HDC's assessment services contract. The budgetary line item was specified to be used to pay SLATE for the space occupied by the assessment unit. Had SLATE not moved to 3800 Lindell Boulevard, where space was available for the assessment unit, it would have had to continue to provide space for the assessment unit at 2208 Washington Avenue or elsewhere.

Renovation of 3800 Lindell Boulevard location

We found that \$57,059 had been paid for the renovation of the building at 3800 Lindell Boulevard. The lessor had paid \$25,114 of this amount, for which he is being reimbursed \$10,000 by SLATE from rental payments during the first year of the lease. The other \$31,945 had been paid by SLATE through HDC.

HDC paid a contractor payments of \$5,000 and \$26,945 at the SLATE Director's request; these amounts were to be reimbursed to HDC through the contractual services budgetary

line item of the assessment services contract. Although the line item specified to be used for consultants contained only \$20,000, the SLATE Director promised to modify the contract to cover the additional expenses. However, the contract was not modified, and when HDC requested reimbursement from the city comptroller for all payments under the budgetary line item in March 1978, the comptroller disallowed \$35,214 because the budgetary line item had been exceeded. The \$26,945 payment to the contractor was included in this amount. As of June 23, 1978, the contract had not been modified, and HDC had not been reimbursed the \$35,214.

Both SLATE and the lessor used the same contractor to renovate the building. The SLATE contract, effective December 2, 1977, for \$31,000 was awarded

"* * * to rehabilitate and provide for the partitioning and designing of such necessary work and office space as needed by SLATE for the Assessment Space, Administrative Offices and Client Flow space * * *."

The work specifications provided for such things as door frame hardware and partitioning, vinyl wall covering, carpeting, and painting. The contractor was paid \$31,945. The additional \$945 was for undefined additional work, according to the final payment request.

In addition to work throughout the building, we observed that the vinyl wall covering, carpeting, and some of the door frame hardware and partitioning were used to remodel the offices of the Director and Deputy Director and their staff.

We discussed with the lessor the cost of renovating the 3800 Lindell Boulevard building. The lessor stated that he spent \$25,114 to renovate the building, of which \$18,060 had been paid to the contractor. He said that the additional \$7,054 covered repairs to the air conditioning and elevators.

The lessor paid \$7,463 to the contractor by check dated November 23, 1977. Another \$10,000 payment was made to the contractor by check dated December 19, 1977. One other payment for \$597 was made to the contractor by check dated April 19, 1978.

CETA and Circular 74-4 requirements

CETA regulations require a prime sponsor to assure that it will comply with the provisions of Federal Management Circular 74-4. Circular 74-4 provides that costs must meet certain general criteria to be allowable under a grant program, including be authorized or not prohibited under State or local laws or regulations and be consistent with policies, regulations, and procedures that apply uniformly to both federally assisted and other activities of the unit of government of which the grantee is a part.

Section 1 of Article XXII of the Charter of the City of St. Louis states that no ordinance for public work or improvement of any kind, or repairs thereof shall be adopted unless they are prepared and recommended by the board of public service with an estimate of the cost endorsed thereon. Section 4 states that all public work except emergency work or repairs requiring prompt attention shall be let by the board of public service in pursuance of the ordinance authorizing the same, and the board shall advertise for bids.

Circular 74-4 further provides that certain grant costs are allowable only with the prior approval of the grantor agency. The cost of space in privately or publicly owned buildings used for the grant program is allowable, subject to certain conditions. One of the conditions is that costs incurred for rearrangement and alteration of facilities required specifically for the grant program are allowable when specifically approved by the grantor agency.

SLATE comments

The SLATE Director stated that areas designed and assigned to house training programs in the Skill Center were converted for use as office space. As the program service level grew, he stated, so did the need for space to house service delivery staff. He stated that eventually there were five SLATE offices in six separate locations within the city. He stated that from a management perspective the current move to larger and more suitable office facilities has served to

- free the program space in the Skill Center for originally intended training purposes;
- consolidate administrative functions for a more efficient overall program administration; and

--allow enough space so that the client population service will not be forced to travel the maze of office locations throughout the city to receive comprehensive program services.

The Director stated that, although Labor's Kansas City region was aware of the renovation, specific approval for the renovation was not received from the region. He also stated that he had contacted the City's board of public service about the renovation work, but he was told that the board did not have jurisdiction when he told them that remodeling work under the lease agreement had already begun.

The Director stated that the building was remodeled to meet SLATE's needs, that \$20,000 had been expended for remodeling costs, and that both SLATE and the lessor had incurred additional expenses for unforeseen changes and additions. He stated that alterations were made to get the maximum efficient utilization of space by SLATE.

Remodeling at Skill Center

We did not find that CETA funds had been used to renovate the SLATE Director's office in the Skill Center. We did find that, at the request of the prior Director of SLATE, private toilet facilities were provided in the Director's office with Model City funds. However, the actual construction of the facilities did not begin until after the current Director took office.

The work was accomplished through the St. Louis board of public service. A private contractor was paid \$4,780 for this work.

Conclusions

SLATE incurred higher rents when it moved its administrative offices to a centralized location; however, we could not determine the reasonableness of the increased costs because the city comptroller's office lacked documentation of the determination of the reasonableness of the lease costs.

Although CETA regulations limit the amount of PSE funds which may be spent for administration, training, and support service costs, we did not address whether administrative cost limitations have been exceeded because of the absence of an equitable method for allocating pooled costs (including rental costs).

We believe the renovation work to the building at 3800 Lindell Boulevard violated the requirements of Circular 74-4 because approval for the work was not obtained from the grantor agency. Consequently, we question the allowability of the costs under the CETA grant program.

Recommendation

We recommend that the Secretary of Labor require Labor's Regional Administrator to make a determination of the allowability of the costs for the renovation and to recoup any CETA grant monies improperly spent.

Labor and sponsor comments and our evaluation

Labor stated that, after our investigation, SLATE requested approval from Labor's Kansas City regional office for the remodeling work which had been done with CETA funds and that office approved the renovation work done at the 3800 Lindell location. Labor also stated that the requested renovation was appropriate to aid in achieving the recognized benefits of centralizing administrative and selected program activities in the Lindell location, and that the regional office determined that it was the type of work which would have been approved had it been requested in a timely manner.

The City stated that Labor had retroactively approved the renovation costs. The City stated that Labor's Kansas City regional office was aware of the renovation but realized that specific approval for the renovation was not received from the regional office in advance.

As previously discussed, costs incurred for rearrangement and alteration of facilities required specifically for the grant program are allowable when specifically approved by the grantor agency. Approval or authorization of the grantor Federal agency is defined in Circular 74-4 as documentation evidencing consent prior to incurring specific costs. While Labor did grant retroactive approval for the renovation costs, we believe that, as part of its regular monitoring activities, Labor should have required SLATE to request approval before starting the renovation.

Remodeling of residence

It was alleged that a contractor did a \$10,000 remodeling of the SLATE Director's condominium in exchange for the Director's promise that he could supervise all minority contracts for SLATE.

We found that the same contractor that remodeled the 3800 Lindell Boulevard building had remodeled the SLATE Director's apartment. We also found that he was awarded a subcontract to supervise three carpenter crews of CETA PSE participants under a home rehabilitation project.

SLATE comments

The SLATE Director stated that the allegation was not true. He said that he does not own a condominium, that the contractor did not perform \$10,000 worth of remodeling for him on any kind of real property, and that he never made a promise to the contractor that he could supervise all minority contracts for SLATE.

The Director stated that the facts are that the contractor did perform approximately \$3,500 worth for remodeling his apartment, for which he has paid approximately \$2,000 and is paying the balance at \$500 per month. The Director showed us cancelled checks to support his statement.

The Director stated that he was married in November 1977 and that his new family required a large apartment. Because of his position with the City, he said, he lives in the City. He stated that he finally found an apartment with 11 rooms located in the City, but it needed some work. He said that a substantial portion of the work was performed by his father-in-law (a journeyman painter) and his relatives for nominal cost as a favor and wedding gift. According to the Director, the work by the contractor included kitchen cabinets and fixtures, carpeting, and carpentry work. Work by the family, according to the Director, included taping and finishing dry walls, hanging wallpaper, staining and sealing hardwood floors, refinishing kitchen cabinets, and some repairs.

With regard to the contractor's supervision of all minority contracts, the Director stated that the MO-KAN Minority Contractors Assistance Organization has been scheduled to participate in the public service employment program. He stated that SLATE had been attempting to link a program joining SLATE employment and training dollars with community development building dollars since before his appointment under

a program known as the Assisted Code Rehabilitation Program. The contractor was selected, he said, because of his previous experience, proximity of his office to MO-KAN, and his mechanical skills. He stated that the contractor was one of the better skilled black contractors in St. Louis, and he was selected to supervise one project because of his skills and for no other reason.

Supervision subcontract

We found that the contractor was awarded a subcontract for the period April 1 through September 30, 1978, by HDC to provide overall technical and professional supervision of a project to rehabilitate private homes to conform with the St. Louis housing code. The subcontract called for him to provide the services of three qualified professional carpenters to carry out the housing repairs and to supervise three crews of public service employees.

The subcontract provided that in no event would the amount paid to the subcontractor exceed \$42,963. The subcontract further provided that the total cost of materials used in the project would not exceed \$50,000.

Unilateral modification to contract

HDC's authority to conduct the project was a unilateral modification, dated April 7, 1978, to its title VI public service employment contract with SLATE. While this modification did not change the contract's total price, it changed the scope of the work to include an HDC job inventory and job banking program, the recruiting, coaching, and intake services of another service delivery agent, and the home rehabilitation project. The modification authorized HDC to utilize \$127,986 of St. Louis Community Development Agency funds for the project, in addition to the title VI funds in the CETA contract. The funds were provided to SLATE under an October 1977 project cooperation agreement with the Community Development Agency from Department of Housing and Urban Development block grant funds.

Contractor comments

The contractor stated that the allegation was not true. He said that he had done about \$3,500 of work on the Director's apartment, that he had received an initial payment of \$1,000, and that the balance was to be paid in monthly \$500 payments. He confirmed that the Director owed him about \$1,500 on the work.

Conclusions

Since the Director has actually made payments to the contractor for part of the work on his apartment and has made arrangements to and is paying the balance, we cannot validate the allegation that the remodeling job was in exchange for the promise to supervise work under the home rehabilitation program.

OTHER ALLEGATIONSUse of summer youth employment program funds

SLATE allegedly diverted \$5,000 of summer youth employment funds into the Miss Black America Pageant. It was also alleged that expensive cameras were bought but not included in SLATE's equipment inventory.

We did not find that CETA funds had been diverted into the Miss Black America Pageant or that CETA funds had been used to purchase expensive cameras. We found that \$4,200 of summer youth recreation funds provided by the Community Services Administration (CSA) were used to purchase 1,400 tickets to a "Boogie to Your Health Disco" sponsored by the Miss Black America of Missouri. We also found that camera equipment was purchased by SLATE with recreation funds. SLATE had not included the camera equipment in the equipment inventory as of June 1978.

Purchase of tickets

The health disco was held from 10:00 a.m. to 4:30 p.m. on August 10, 1977, at a rented union hall; it included displays from the different health service departments and guest appearances by the candidates for the Miss Black America of Missouri title. Admission cost \$3.50 per person, but tickets were sold to the summer youth program for \$3.00 per person.

The coordinator of the event is the director of a CETA subgrantee agency. He stated that his wife is chairperson of Miss Black America of Missouri. He stated also that the health disco had four objectives:

- To provide youths information on health care.
- To provide an atmosphere for youths to have fun.

--To promote Miss Black America activities.

--To raise money to support Miss Black America.

The event's coordinator stated that he presented the idea for a health disco to SLATE because he saw other organizations earning money from activities that SLATE's summer youth program participated in. He stated that he feels the money was used for a good cause, and it was put back into the community.

According to the coordinator, all expenses for the health disco were paid by Miss Black America of Missouri. He estimated the expenses to be about \$2,000.

Evaluation of SLATE program

CSA provided us with an HDC evaluation of SLATE's summer youth recreation program dated August 1, 1977. The evaluator concluded, based on a visit to the program site and a review of various materials, that the program was extremely efficient and benefited a great number of youth as well as the community.

As part of his evaluation the HDC evaluator obtained a list of the field trips requested by the community agencies. Our review of the list did not disclose a request from a community agency to attend the health disco on August 10, 1977, even though the summer youth participation was agreed to on July 25, 1977--before the evaluator's visit to SLATE on July 29, 1977. However, the listing did show that two of the community organizations which participated in the health disco had requested to attend the zoo or ride a riverboat on this date.

Duplication of names

Lists of the clients and supervisors for whom tickets are purchased by SLATE are normally attached to the disbursement vouchers as support. We reviewed the lists of 2 of the 17 community organizations which attended the health disco and found that on one list the names of 45 clients had been duplicated and on the other list the names of two supervisors had been duplicated.

The coordinator stated that he had nothing to do with the lists. He stated that each community organization sends a list to SLATE for approval before the trips.

Purchase of camera equipment

During August 1977 SLATE purchased, at different times, a camera lens, a camera flash attachment, a camera case, and other items (including film) costing \$244.76. The Director of Youth Services stated that he owned a camera on which the equipment was used to take photographs at summer youth programs.

The SLATE property manager stated in June 1978 that the camera equipment was not recorded on SLATE's equipment inventory.

CSA instructions

CSA instructions provide that recreation support programs will provide recreational opportunities such as playground activities, organized sports and games, arts and crafts, informational tours, cultural field trips, instruction in the creative arts, and special events.

CSA instructions also require a grantee to submit an equipment requirements list concurrent with the grant proposal for nonexpendable property necessary for the performance of the specific program. The instructions state that at no time will the grantee acquire nonexpendable property which has not been reflected on the initial or supplemental equipment requirements list without written authorization from the property administrator.

The instructions define nonexpendable property as any property having an acquisition value of \$50 or more or a useful life of more than 1 year. The instructions provide that each piece of nonexpendable property be properly marked to show grantee identification, and that a separate property record card be maintained for each item.

Audit of CSA grant to SLATE

A certified public accounting firm audited the CSA summer youth recreation program grant under which the tickets and camera equipment were purchased. The firm questioned \$18,673 of costs under the \$264,626 available to SLATE (\$179,180 in 1977 and \$85,446 carryover from 1976). None of the questioned costs concerned any of the vouchers used to pay Miss Black America of Missouri. However, the firm questioned \$189 of the \$244.76 paid for camera equipment and other items, which is equal to the cost of the camera lens, camera flash

attachment, and camera case. The firm questioned the cost because the reports required by CSA instructions for purchase of nonexpendable property were not filed.

Several recommendations were made to SLATE by the accounting firm to strengthen controls over participant eligibility and processing of invoices, including

- reconciling tickets invoiced with attendance lists,
- generation of attendance lists at the time of each trip,
- supervisor certification of attendance lists,
- more formal documentation of the monitoring function by SLATE officials, and
- special care be taken to assure that only the required number of tickets is purchased.

The accounting firm also recommended that SLATE officials pursue the deviation from CSA requirements concerning the purchase of nonexpendable property with CSA and either comply with the applicable instructions (where possible) or obtain a written waiver of the requirement. CSA had not pursued the audit findings with SLATE at the time of our visit to the regional CSA office in June 1978.

SLATE comments

The SLATE Director stated that the purchase of tickets to the health disco was deemed appropriate by SLATE in light of the CSA instruction which states that a special event is an acceptable activity.

The Director also stated that the photographic equipment was purchased at the beginning of the summer program, before receipt of the CSA staff manual that included procedures for the purchase of such items.

He referred to the deviation recognized in the accounting firm's report and stated that proof of actual purchase was made available to the auditors.

CSA comments

The regional CSA field representative stated that no regulations were violated by purchasing tickets to the health disco.

Conclusions

Based on our discussion with the regional CSA field representative, it appears that the health disco sponsored by the Miss Black America of Missouri was an allowable activity under CSA regulations.

We believe that either fewer than 1,400 individuals attended the health disco sponsored by the Miss Black America of Missouri or that inadequate procedures were used for identifying the persons who attended. The recommendations made by the accounting firm should, if properly implemented, strengthen controls over participation in sponsored events and equipment purchases under SLATE's summer youth recreation program.

LIST OF ALLEGATIONS AND QUESTIONS CONCERNING THE
CETA PRIME SPONSOR IN ST. LOUIS, MISSOURI

1. Use of patronage employees to fill administrative positions.
2. Failure to comply with unemployment insurance laws when providing participant benefits upon completion of an employment contract.
3. SLATE neglected to file Federal wage reports for participants. Because of this 600 people who will be or have been laid off will not receive unemployment insurance benefits. SLATE is attempting to negotiate filing amended wage reports to rectify this, but the State Employment Service Agency generally has not allowed it.
4. The Skill Center superintendent has been involved in employment and training programs for years. His job was recently split into two jobs. Who has the second job, how much does each earn, and what are the responsibilities of each job?
5. Funding for Opportunity Clearinghouse was held up by the SLATE Director for 4 months. The Director said that the only way the program would receive funding was to fire an employee. The employee was subsequently fired and the program was funded.
6. SLATE channeled \$25,000 to an accounting firm with a stipulation that work be given to a specific subcontractor.
7. Program participant intake services have historically been carried out by the community service agencies. SLATE is trying to centralize this process. Why is this being done, and what is the justification for it?
8. An article in a local newspaper charged that the SLATE Director has or has had relations with four present or potential service delivery agents. These connections may create conflicts of interest for the Director. Contracts in force or pending for the four agents total about \$675,000.
9. SLATE failed to maintain an accurate accounting of funds expended in each title program under its supervision.

10. SLATE is intermingling CETA title II and VI funds.
11. SLATE has entered into contracts totaling \$7 million more than its authorization allowed. The city comptroller approved the contracts but was not aware that the authorization was exceeded.
12. Service delivery agents signed 1-year contracts with SLATE but the SLATE Director withheld funds for 3 months. He terminated these contracts at the end of the contract period even though the delivery agents had not had funds for the entire contract period.
13. Potential service delivery agents negotiated contracts with SLATE, but after negotiations were supposedly successfully completed the agents never heard from SLATE.
14. Excessive charges to administrative costs account for rental of office space.
15. The SLATE Director moved the agency's office from a municipally owned structure to a considerably higher cost privately owned rental building.
16. The SLATE Director entered into a 5-year lease on a building that had been unoccupied for 5 years. The rent on the building was previously \$20,000 per year; the new rent is \$150,000 per year.
17. The Lindell Boulevard building SLATE has contracted to move into was to be remodeled for \$20,000. Half the amount is to be paid by the City of St. Louis and half by the lessor. What remodeling was done, who paid for it, and what was the cost?
18. The SLATE Director may have remodeled his private office at the Skill Center. If so, what was done, who did it, what was the cost, and what funds were used?
19. A contractor did a \$10,000 remodeling of the SLATE Director's condominium in exchange for the Director's promise that he could supervise all minority contracts at SLATE.
20. SLATE diverted \$5,000 of summer youth employment funds into the Miss Black America Pageant.
21. Expensive cameras were bought but not included in SLATE's equipment inventory.

U.S. DEPARTMENT OF LABOR
OFFICE OF THE SECRETARY
WASHINGTON

JAN 19 1979

Mr. Gregory J. Ahart
Director
Human Resources Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Ahart:

Thank you for the opportunity to comment on the draft report, "Administrative Weaknesses in St. Louis' Comprehensive Employment and Training Act (CETA) Program." We feel that your staff did a commendable review of the questions raised regarding the St. Louis Agency on Training and Employment (SLATE), the St. Louis prime sponsor. I am pleased to inform you that the Kansas City Regional Office of the Department's Employment and Training Administration (ETA) has already initiated actions to implement the three recommendations in your report.

Specific actions taken regarding your recommendations are:

Recommendation 1

- "The Secretary of Labor require Labor's Regional Administrator take action necessary to terminate the hiring of employees by SLATE through subgrantee contracts, to bring the affected positions under a system which meets Federal merit standards in a timely manner, and recoup any CETA grant monies improperly spent."

Subsequent to the GAO investigation, SLATE and the City Personnel Department met and developed plans to revise the table of organization for the SLATE agency, to initiate a job classification study on all the positions and to bring all staff under the City Personnel System. The Department is aware of a

meeting that was held in August between the two city agencies, and also one on December 6. As of the meeting on December 6, a draft table of organization had been developed along with classification of the positions in SLATE. I understand that they plan to negotiate the final classification of positions and the table of organization in the very near future. The positions and classifications, where there is no disagreement, will be opened up for examination and transferring of appropriate staff or otherwise filling the positions based on the city of St. Louis' personnel regulations and on the table of organization. As soon as the table of organization and position classification are finalized, all staff will be brought under the merit system. An audit of the subgrantee who paid the salary of the affected SLATE employees is scheduled during this fiscal year. After the audit is completed, a decision will be made on any disallowed cost.

Recommendation 2

- "The Secretary of Labor should have Labor's Regional Administrator vigorously work with SLATE in developing an acceptable system for allocating administrative costs to CETA grants. Also, SLATE's administrative costs incurred during Fiscal Year 1978 be reallocated under the new system and that Labor recoup any CETA grant monies where the legal limitations were exceeded."

Subsequent to the investigation, the Federal Representative, of ETA, in working with the St. Louis Agency on Training and Employment and the St. Louis Comptroller's Office, initiated efforts to change the allocation plan from the one which GAO objected to, to one which is acceptable to the Department of Labor. The allocation plan now prorates the costs to be allocated to the direct staff salaries of the prime sponsor by title. A recent audit of the St. Louis prime sponsor, which reviewed FY 1977 records and included a partial audit of FY 1978 records, found no instances where the legal limitations of the spending of program funds were exceeded. As regularly scheduled audits find any such instance, actions to recoup the funds will be taken as appropriate.

Recommendation 3

- "The Secretary of Labor should require Labor's Regional Administrator to make a determination of the allowability of the costs for the renovation and recoup any CETA grant monies improperly spent."

Subsequent to the GAO investigation, the prime sponsor, SLATE, has submitted information to ETA's Kansas City Regional Office requesting approval of the remodeling work which had been done for which CETA funds were used. That office approved the renovation work that was done at the 3800 Lindell location. The requested renovation was appropriate to aid in achieving the recognized benefits of centralizing administrative and selected program activities in the Lindell location. The Regional Office determined that it was the type of work which would have been approved had it been requested in a timely manner.

Sincerely,



R. C. DeMarco
Inspector General - Acting

**OFFICE OF THE MAYOR**CITY OF SAINT LOUIS
MISSOURIJAMES F. CONWAY
MAYOR

December 29, 1978

Mr. Gregory A. Hart, Director
United States General Accounting Office
Washington, D.C. 20548

RE: Draft of Proposed GAO Report
Entitled "Administrative
Weaknesses in the Saint
Louis Comprehensive Employment
and Training Act Program"

Dear Mr. Hart:

I am writing to you pursuant to your letter dated November 30, 1978 concerning the above named matter. Please be advised that we have reviewed the draft of the proposed report regarding inquiry into Congressman William L. Clay's allegations and questions raised against the Saint Louis Comprehensive Employment and Training Act Program.

Our review of your report indicates that the allegations were substantially unfounded. However, with regard to those matters of weaknesses in the administration of the Saint Louis CETA Program, you can be assured that we have taken and are taking the necessary steps to correct those weaknesses. My review of this situation indicates that those steps have been in the process of being taken since this administration's inception. We have been and are taking necessary steps to correct systems that have grown up under the previous CETA administration.

I. ALLEGATIONS CONCERNING PROGRAM MANAGEMENT

1. With regard to SLATE using patronage employees to fill administrative positions. Please be advised that the Saint Louis Department of Personnel has completed a total reclassification and review process for the Saint Louis Agency on Training and Employment and has updated the Table of Organization which had not been revised since March, 1973; has updated the pay grades and classifications for those positions and

will begin to advertise those positions no later than January 15, 1979. We are certain that as soon as these positions are filled, within the next 90 to 120 days, that the Federal Merit standards will be met.

2. Compliance with Unemployment Insurance Laws. Adequate response.
3. Duties of Skill Center Superintendent. Adequate response.
4. Non-Funding of Sub-Grantee until employee's discharge. Adequate response.
5. Use of a specific sub-contractor. Adequate response.
6. Program participant intake services. Adequate response.
7. Possible Conflict of interest. Adequate response.

II. ALLEGATIONS CONCERNING ACCOUNTING FOR CETA FUNDS

1. Accounting for funds expended and intermingling of funds. Adequate response.
2. Intermingling of CETA Title II and Title VI funds. Adequate response.
3. Allocation of administrative costs. We will simply point out that in addition to this cause, in this section, that the allocation of administrative costs have been a difficult problem for Prime Sponsors around the country, and the Department of Labor has taken recognition of this problem of allocation of administrative costs by allowing the administrative cost to be pooled across Grant Titles in new draft of its Regulations.

For FY'79, all funds received under any Title of the Comprehensive Training and Employment Act, which are allowed to be used for Administrative costs under the provisions of the Title, under which the program is operated, the funds are received, may be pooled by the recipient, so they can be used to administer all programs under this Act. . . .

This fact and the new Regulations, recognize the problem that Prime Sponsors around the country were having in dividing a Director's time and allocating

a Director's salary across any number of titles for programs operating over a period of eighteen (18) months, or operated over a twelve (12) month period or shorter, with the allocation formula having to be changed, almost on a month to month basis.

However, we have been involved for a substantial period of time with a National Big Eight Certified Public Accountant Firm to develop an effective management information system to achieve the recommendation of the General Accounting Office, and will continue to do so.

4. Overcommitment during Economic Stimulus Buildup. The Title VI grant has not been closed out, but we are projecting a fifty to one hundred thousand dollar undercommitment in this activity.

III. ALLEGATION CONCERNING BUILDING MANAGEMENT

1. Charges to administrative cost for rental and remodeling of offices. Please be advised that the Department of Labor has retroactively approved the renovation costs that were completed and a copy of a letter to that effect is attached for your perusal. However, we will continue to specifically point out that the Department of Labor at the Kansas City Regional Office was aware of the renovation, however, we do realize that specific approval for the renovation was not received from the Regional Office, in advance.
2. Validity of SLATE's move from a city owned to a privately owned building. Adequate response.
3. Remodeling at the Skill Center. Adequate Response.
4. Remodeling of residence. Adequate response.

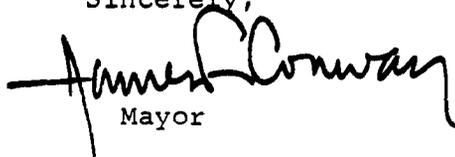
IV. OTHER ALLEGATIONS

1. Use of Summer Youth Employment Program Funds. Adequate response.

It is clear that this administration has inherited in its CETA program a number of weaknesses which we are indeed addressing. We appreciate your fairness and objectivity in your

conclusions and recommendations and will continue to expeditiously work toward immediately implementing.

Sincerely,


Mayor

DP:var

U. S. DEPARTMENT OF LABOR
EMPLOYMENT AND TRAINING ADMINISTRATION
911 WALNUT STREET

ST. LOUIS, MISSOURI 64106

DATE: September 5, 1978
REPLY TO:
ATTN OF: 7 TGS-M
SUBJECT: Rearrangement and Alterations to SLATE Office
3800 Lindell - PSA 29-2-196



TO: Mr. Charles L. Bussey, Director
St. Louis Agency for Employment
and Training
3800 Lindell
St. Louis, Missouri 63108

Reference your letters of June 30, 1978 and August 18, 1978 in which you request approval and provide information regarding the subject matter.

Based on the information provided, the rearrangement and alterations that have been completed and itemized in your letter of August 18, 1978 are acceptable to this office.

Because of the utilization of a small minority owned business and the timeframe involved to accomplish the work, the method of negotiated procurement which was used, and which is provided for in OMB Circular A-102, Attachment O(6), is acceptable to this office. This approval is not intended to supersede local prime sponsor procurement policies which may be more restrictive.

It should be noted that FMC 74-4, Attachment B, Section C, paragraph 2c requires approval of the grantor agency by the grantee in order to make the necessary subject rearrangements and alterations. This approval should be acquired prior to the actual work being accomplished. It is important that the grantee comply with this and all administrative and regulatory policies governing grants.

Your Federal Representative or this office will provide any assistance possible should you have questions in the future.

Cecil A. Reed
CECIL A. REED
Associate Regional Administrator,
for Area Operations

(205001)

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