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Dear Mr. Broyhill:

We refer to your letter dated April 10, 1970, and our subsequent discussions and agreements with Mrs. Elizabeth McCann of your staff regarding your request that we inquire into alleged rental arrearages on space leased to Youth Pride Economic Enterprises, Inc. (Corporation), at 2620 to 2630 14th Street NW., Washington, D.C. (1400 Fairmont St. NW.), and the possible use by the Corporation of Federal funds to purchase an apartment building.

As we informed you on July 23, 1970, we arranged for the Department of Labor to review these matters during an audit it was making of the Corporation's expenditures under a Department contract. The purpose of this letter is to advise you of the results of the Department's audit, our evaluation thereof, and the additional actions that the Department proposes to take on certain unresolved issues.

The Department's audit showed that the rental payments for the property leased by the Corporation on 14th Street were current as of August 3, 1970. The results of the audit, however, are inconclusive as to whether the Corporation used Federal funds in the purchase of the Buena Vista apartment complex at Shipley Terrace and Buena Vista Terrace SE., Washington, D.C.

The Department of Labor contract under which the Corporation received Federal funds was entered into on August 5, 1968, and was amended on May 22, 1969. The contract authorized funds up to \$1,172,010 to be provided to the Corporation for investment in corporate enterprises to enable the Corporation to employ permanently 275 disadvantaged persons before August 5, 1970. The Department disbursed \$1,054,809 to the Corporation under the contract. No additional contracts have been entered into between the Department and the Corporation.

According to the Department, the Corporation commingled the funds received under the contract with other Corporation funds and this precluded a determination by the auditors of the exact use made of funds received under the contract. At the request of the Department, the Corporation attempted to account for the funds received under the contract and in the resulting report showed expenditures totaling \$1,030,290. This amount was \$24,519 less than the amount the Department disbursed to the Corporation under the contract. Of the \$1,030,290 reported by the Corporation, the Department questioned whether \$120,909 should have been

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included, because certain expenditures were included twice, were not documented, were made before the contract period, were miscalculated, or were not considered to be for authorized contract purposes.

The Buena Vista complex is a 23-year-old apartment complex consisting of 55 one- and two-bedroom apartments in six buildings. The Corporation purchased the complex in January 1970 for \$380,000. A Corporation report showed that financing for the apartment complex consisted of the assumption of a first mortgage which had a balance of about \$309,000, of second mortgages to the previous owners totaling \$20,000, of a long-term loan from an unnamed private foundation for \$50,000, and of Corporation funds totaling \$1,000. The Department's auditors were unable to verify the loan from the private foundation, and no mortgage had been recorded to secure the loan.

The Department's audit showed no indications that Federal funds were used in the purchase of the apartment building. Since \$145,428 of the amount disbursed under the contract is not adequately accounted for at this time--the amount questioned, \$120,909 plus the \$24,519 not included in the Corporation's report--we believe that the audit has not shown conclusively that Federal funds were not used in the purchase of the apartment building.

We have discussed this matter with Department officials, and they have agreed to pursue it with the Corporation, and, to the extent that the Corporation cannot appropriately document all costs under the contract, the Department will request that a refund be made. We plan to review the Department's actions, and we shall report the results to you at such time as a final settlement is reached.

Neither the Corporation nor the Department has been given an opportunity to formally review and comment on the matters discussed in this report. Pursuant to our agreement with Mrs. McCann, we shall advise the Department of the date of this report and of the general nature of its contents.

Sincerely yours,



Assistant Comptroller General  
of the United States

The Honorable Joel T. Broyhill  
House of Representatives