

U.S. Department of Labor

Office of Inspector General—Office of Audit

OFFICE OF JOB CORPS



LOS ANGELES JOB CORPS CENTER: ALLEGATIONS OF MISUSE OF DEPARTMENT OF LABOR FUNDS AND PROPERTY

Date Issued: September 29, 2006
Report Number: 09-06-005-01-370

**U.S. Department of Labor
Office of Inspector General
Office of Audit**

BRIEFLY...

Highlights of Report Number: 09-06-005-01-370, to Esther R. Johnson, National Director, Office of Job Corps.

WHY READ THE REPORT

This report discusses the merits of a hotline complaint alleging the Young Women's Christian Association (YWCA), operator of the Los Angeles Job Corps Center (Center) misused Department of Labor funds and property and makes recommendations where appropriate.

WHY OIG DID THE AUDIT

The Office of Inspector General conducted an audit of the Center, which is operated by the YWCA of Greater Los Angeles. The audit was initiated to determine the merits of a hotline complaint alleging that the YWCA: (1) charged costs to develop a proposal to operate the Long Beach Center to the Job Corps contract; (2) allowed the CEO to use a government vehicle for private purposes; (3) charged unnecessary bank fees to the Job Corps contract; (4) charged the cost of a new accounting system to the Job Corps contract; (5) operated a child care center on contaminated land; and (6) required Center employees to join an illegal YWCA pension plan.

READ THE FULL REPORT

To view the report, including the scope, methodology, and full agency response go to:

<http://www.oig.dol.gov/public/reports/oa/2006/09-06-005-01-370.pdf>

SEPTEMBER 2006

Los Angeles Job Corps Center: Allegations of Misuse of Department of Labor Funds and Property

WHAT OIG FOUND

Of the six allegations, one was substantiated, one could not be answered, and four were unsubstantiated:

1. The allegation the YWCA charged the Job Corps contract for the cost of a proposal for the Long Beach Center was substantiated. We also found the Center charged similar costs for the Los Angeles Center in 2005. We believe that these costs were unallowable direct costs and we are questioning \$300,870.
2. The allegation the YWCA Chief Executive Officer (CEO) used a government vehicle for personal use could not be answered. The CEO did have a government vehicle for 3 years, but detailed trip records were not kept. Therefore, we could not determine if the vehicle was used for personal purposes. However, the Center did not bill the YWCA for the annual insurance costs on the vehicle and we are questioning \$3,000.
3. The allegation the YWCA charged unnecessary bank fees of about \$3,000 to the Job Corps contract was not substantiated.
4. The allegation that costs of about \$100,000 for a YWCA accounting system were charged to the Job Corps contract was not substantiated.
5. The allegation the YWCA operated a child care center on contaminated land was not substantiated.
6. The allegation the YWCA required Center employees to join an illegal pension plan was not substantiated.

WHAT OIG RECOMMENDED

We recommended the National Director, Office of Job Corps recover \$300,870 for proposal development and \$3,000 for vehicle insurance costs, and direct the YWCA to comply with DOL regulations on vehicle use.

The National Director, Office of Job Corps, concurred with our recommendations.

Table of Contents

	PAGE
TABLE OF CONTENTS.....	1
EXECUTIVE SUMMARY	3
ASSISTANT INSPECTOR GENERAL’S REPORT	7
1. The YWCA charged the Job Corps contract for the cost of developing a proposal for the operation of the Long Beach Job Corps Center	8
2. We could not substantiate the allegation the CEO of the YWCA used a government vehicle for personal use	9
3. The YWCA did not charge unnecessary bank fees to the Job Corps contract.	10
4. The costs for a new YWCA accounting system were not improperly charged to the Job Corps contract	11
5. The YWCA did not operate a child care center on contaminated land	11
6. Center employees were not required to join an illegal pension fund operated by the YWCA.....	11
APPENDICES.....	13
A. APPENDIX A Background.....	15
B. APPENDIX B Objective, Scope, Methodology, and Criteria.....	17
C. APPENDIX C Acronyms and Abbreviations	19
D. APPENDIX D Agency Response to Draft Report	21

PAGE HAS BEEN INTENTIONALLY LEFT BLANK

Executive Summary

Six allegations were made against the Young Women’s Christian Association of Greater Los Angeles (YWCA), the operator of the Los Angeles Job Corps Center (Center). The allegations, in brief, were (1) charging proposal development costs to the Job Corps contract, (2) using a government vehicle for private purposes, (3) charging unnecessary bank fees to the Job Corps contract, (4) charging the cost of a new YWCA accounting system to the Job Corps contract, (5) operating a child care center on contaminated land, and (6) requiring Center employees to join an illegal YWCA pension plan.

Our audit objective was to determine if the allegations were substantiated. Specifically, we answered the following questions:

1. Did the YWCA charge the Job Corps contract for the cost of developing a proposal in response to a Request for Proposal (RFP) issued by the Job Corps for the operation of the Long Beach Job Corps Center?
2. Did the CEO of the YWCA use a government vehicle for personal use?
3. Were costs incurred as the result of the CEO’s decision to change banks unreasonable?
4. Were costs for a new YWCA accounting system charged to the Job Corps contract?
5. Was a child care center operated by the YWCA and used by the Center operated on contaminated land?
6. Were Center employees required to join an illegal pension fund operated by the YWCA?

Results

Of the six allegations, we found one was substantiated, one could be neither substantiated nor disproved due to lack of documentation, and four were unsubstantiated, as summarized in the following paragraphs:

1. The complaint alleged the YWCA charged the Job Corps contract for the cost of developing a proposal in response to an RFP issued by Job Corps to operate the Long Beach Job Corps Center. This allegation was substantiated. We also found the Center charged the existing Job Corps contract for the cost of developing a proposal for awarding the contract to operate the Center in Los Angeles in 2005. Total cost to prepare both proposals was estimated to be

\$300,870. We believe that these costs were unallowable direct costs and we are questioning this amount.

2. The complaint alleged the CEO of the YWCA used a government vehicle for personal use. We could not determine the answer to this allegation. The CEO did have a government vehicle assigned to her for 3 years, but detailed trip records were not kept. Therefore, we could not determine if the vehicle was used for personal purposes. However, the Center billed the YWCA for the monthly use of the vehicle, but did not bill the YWCA for \$3,000 of annual insurance costs on the vehicle. Accordingly, we are questioning the \$3,000 in unbilled insurance costs.
3. The complaint alleged the YWCA charged unnecessary bank fees of about \$3,000 to the Job Corps contract as a result of the CEO's improper actions related to changing banks. This allegation was not substantiated. We did not find the CEO's actions in changing banks to be unreasonable.
4. The complaint alleged costs of about \$100,000 for a new YWCA accounting system were improperly charged to the Job Corps contract. This allegation was not substantiated. We determined costs for the new YWCA accounting system were not paid with Job Corps contract funds.
5. The complaint alleged a child care center operated by the YWCA, but used occasionally by Center staff and students, was on contaminated land. This allegation was not substantiated. We determined the YWCA had assurances that the land had been tested and found to be free of contaminants. We verified the testing results with the appropriate county agency.
6. The complaint alleged Center employees were required to join an illegal pension plan operated by the YWCA. This allegation was not substantiated. We determined the Center had its own pension plan and Center employees were not eligible to join the YWCA plan. Furthermore, the IRS had approved both plans.

Recommendations

We recommend the National Director, Office of Job corps:

1. Recover \$300,870 representing the total estimated proposal development costs improperly charged to the Job Corps contract.
2. Recover \$3,000 in insurance cost associated with the GSA leased vehicle used by the CEO of the YWCA.
3. Direct the Center and the YWCA to comply with all provisions of DOL regulations and Center policy regarding the use of U.S. Government vehicles.

Agency Response

The National Director, Office of Job Corps, concurred with our recommendations and agreed to request return of the funds and direct the YWCA to comply with all Department of Labor's vehicle policies. The National Director, Office of Job Corps, also stated the Regional Office would closely monitor the YWCA's compliance.

OIG Conclusion

We agree with Job Corps' planned corrective actions and consider the recommendations resolved and open. The recommendations will be closed upon the OIG's verification that the funds have been requested and returned.

PAGE HAS BEEN INTENTIONALLY LEFT BLANK

U.S. Department of Labor

Office of Inspector General
Washington, DC 20210



Assistant Inspector General's Report

Ms. Esther R. Johnson
National Director
Office of Job Corps
U. S. Department of Labor
200 Constitution Ave., N.W.
Washington, D.C. 20210

The Office of Inspector General (OIG) audited a complaint made against the Young Women's Christian Association of Greater Los Angeles (YWCA), the operator of the Los Angeles Job Corps Center (Center). The complaint alleged that the YWCA (1) charged proposal development costs to the Job Corps contract, (2) used a government vehicle for private purposes, (3) charged unnecessary bank fees to the Job Corps contract, (4) charged the cost of a new YWCA accounting system to the Job Corps contract, (5) operated a child care center on contaminated land, and (6) required Center employees to join an illegal YWCA pension plan.

Our audit objective was to determine if the allegations were substantiated. Specifically, we answered the following questions:

1. Did the YWCA charge the Job Corps contract for the cost of developing a proposal in response to a Request for Proposal (RFP) issued by Job Corps for the operation of the Long Beach Job Corps Center?
2. Did the CEO of the YWCA use a government vehicle for personal use?
3. Were costs incurred as the result of the CEO's decision to change banks unreasonable?
4. Were costs for a new YWCA accounting system charged to the Job Corps contract?
5. Was a child care center operated by the YWCA and used by the Center operated on contaminated land?
6. Were Center employees required to join an illegal pension fund operated by the YWCA?

Of the six allegations, we found one was substantiated, one could be neither substantiated nor disproved due to lack of documentation, and four were unsubstantiated. We conducted our audit in accordance with Government Auditing Standards. Our audit scope, methodology, and criteria are detailed in Appendix B.

The details of our audit results are provided in the following sections.

Objective 1 – Did the YWCA charge the Job Corps contract for the cost of developing a proposal in response to an RFP issued by Job Corps for the operation of the Long Beach Job Corps Center?

Results

Yes. This allegation was substantiated. The YWCA charged the Job Corps contract directly for the cost of developing a proposal in response to an RFP issued by Job Corps for the operation of the Long Beach Job Corps Center. Specifically, Center staff spent several thousand hours in 2005 preparing a proposal to assist in operating the Long Beach Job Corp Center. According to an estimate prepared by the Center, the cost of these hours totaled \$221,598. This time was paid for with Job Corps contract funds. This violates applicable cost principles.

We also found the Center charged the existing Job Corps contract for the cost of developing a proposal for awarding the contract to operate the Center in Los Angeles in 2005. This also violates applicable cost principles.

In order for a particular cost to be allowable, it must be both reasonable and allocable. OMB Circular A-122, Attachment A, which applies to nonprofit organizations, contains specific factors which affect the allocability of costs. The Circular, Attachment A, paragraph 4, provides the following guidance in regards to allocable costs:

- A. A cost is allocable to a particular cost objective, such as a grant, contract, project, service, or other activity, in accordance with the relative benefits received. A cost is allocable to a Federal award if it is treated consistently with other costs incurred for the same purpose in like circumstances and if it:
 - a. Is incurred specifically for the award
 - b. Benefits both the award and other work and can be distributed in reasonable proportion to the benefits received, or
 - c. Is necessary to the overall operation of the organization, although a direct relationship to any particular cost objective cannot be shown.

These costs are not allocable based on the above criteria.

The Center established internal controls to track and record the cost of special projects such as proposal development. Center policy is to keep detailed records of time and expenses incurred by employees when they work on special projects and then bill the YWCA accordingly. This procedure had been used to track costs of previous special projects.

We interviewed Center staff who worked on the proposals to determine why the proposal costs were not handled in accordance with established policy. We were told the CEO of the YWCA instructed the staff not to separately keep track of costs incurred for the proposals.

The CEO confirmed this instruction. She told us she considered the proposal costs to be staff development costs and therefore allowable as direct charges to the Center contract.

We disagree. We believe the costs are unallowable since they do not meet the criteria set forth in OMB Circular A-122.

According to an estimate prepared by Center staff, the Center incurred total costs of \$221,598 to develop the Long Beach proposal and \$79,272 to develop the Los Angeles proposal. These costs were billed as a direct cost. The effect of this condition is that direct costs were overstated by a total of \$300,870.

Objective 2 – Did the CEO of the YWCA use a government vehicle for personal use?

Results

We could not determine the answer to this objective. The complaint alleged that the CEO of the YWCA used a vehicle that was leased from the General Services Administration (GSA) by DOL and assigned to the Center for ongoing and continuous personal use. We interviewed staff at the Center, reviewed the internal controls in place over government vehicles, and conducted a physical inventory of the Center's government vehicles.

We found that the CEO of the YWCA was in continuous possession of a government vehicle beginning in July 2001 and ending in May 2005. During this time, the Center's normal internal controls over vehicle use were not executed for the vehicle used by the CEO. Specifically, the Center's internal guidance required a purpose be recorded for each trip where a vehicle is used. This was not done by the CEO while she had the vehicle.

ETA Property Management Handbook No. 359 governed the use of leased vehicles during this time period. The handbook prohibited overnight retention of a U.S.

Government vehicle by an individual. The handbook stated: "Overnight retention of a U.S. Government vehicle by an individual is prohibited." The handbook allowed overnight retention only if the operator's return from official travel was scheduled after normal duty hours, or in case of an emergency. The handbook further stated contractors were expected to maintain records of all instances that vehicles were retained overnight.

The CEO requested the vehicle in July 2001. The vehicle was returned to the Center in May 2005. The CEO of the YWCA informed us that during the time she had the vehicle, she was heavily involved in locating property for renovation and expansion of the Center. While this is indeed official business, in our opinion, this does not constitute overnight or emergency retention as defined above. Furthermore, the Center did not maintain records of all instances that the CEO retained the vehicle overnight.

While the vehicle was in the CEO's possession and on a monthly basis, the Center's Transportation Manager recorded the number of miles driven for the vehicle and forwarded this information to GSA. Based on this information, GSA billed the Center for monthly usage of the vehicle. The Center then billed the YWCA for this same amount. Usage of the vehicle for the 4-year period totaled \$9,925. The YWCA paid for the vehicle from its "Unrestricted Funds" Account.

Per ETA Property Management Handbook No. 359, "the contractor must obtain liability and property damage insurance on every Government-owned vehicle assigned to the contract, including all vehicles obtained through the GSA Interagency Motor Pool System." The Center obtained the required liability and property damage insurance for the vehicle in the CEO's possession. However, the Center did not bill the YWCA for the cost of insurance while the vehicle was in the CEO's possession. Total Insurance costs were \$3,000.

Since the required documentation was not maintained, it is impossible to know if the CEO used the vehicle for personal use. However, since the cost of the vehicle was borne by the YWCA, it follows that the insurance cost also should be assigned to the YWCA. Therefore, we question \$3,000 of insurance costs for the vehicle.

Objective 3 – Were costs incurred as the result of the CEO's decision to change banks unreasonable?

Results

No. The complaint alleged the YWCA had charged unnecessary bank fees of about \$3,000 related to changing banks in 2004 to the Job Corps contract. We interviewed Center staff and the CEO of the YWCA about the bank fees and the decision to change banks in 2004. The initial decision to switch banks related to poor service from the original bank. However, shortly after opening a new account, the new bank closed its location near the Center. Therefore, the account was switched back to the original

bank. We did not find any evidence that the CEO acted improperly in making these banking decisions. Therefore, we concluded the allegation was not substantiated.

Objective 4 – Were costs for a new YWCA accounting system improperly charged to the Job Corps contract?

Results

No. The complaint alleged the YWCA had improperly charged about \$100,000 of the cost of a new YWCA accounting system to the Job Corps contract. In 2003, the YWCA began implementation of a new accounting software package. The total cost of the system was approximately \$900,000 (including software, training, hosting, legal, and consultant fees). We reviewed invoices and copies of checks totaling \$414,180 (45 percent of the total cost). Each of the invoices was received (evidenced by a dated “Receipt Stamp”) and paid for by the YWCA and not charged to the Job Corps contract. Furthermore, we interviewed the Center’s Finance Manager and she confirmed that she had not charged the Job Corps contract for any of the cost of the new accounting system, nor has the Center paid any bills for the new accounting system. Therefore, we concluded the allegation was not substantiated.

Objective 5 – Was a child care center owned and operated by the YWCA on contaminated land?

Results

No. The Complaint alleged the YWCA owned and operated a child care center on contaminated land that had not been certified by the State of California. We found that the YWCA had obtained certification from the County of Los Angeles Department of Health Services that the site was not contaminated. In addition, we verified with the County of Los Angeles Department of Health Services that the land had been tested and was free of contaminants. Therefore, we concluded the allegation was not substantiated.

Objective 6 – Were Center employees required to join an illegal pension fund operated by the YWCA?

Results

No. The complaint alleged the YWCA required Center employees to join an illegal pension fund operated by the YWCA. We interviewed the Center’s Assistant Controller, the Center Director, and the YWCA CEO. Each of them stated that the pension plans for the YWCA and the Center were separate and that Center employees were not eligible to join the YWCA plan. In addition, we verified that the IRS had approved both plans as meeting IRS requirements as legal plans. Therefore, we concluded the allegation was not substantiated.

Recommendations

We recommend the National Director, Office of Job Corps:

1. Recover \$300,870 representing the total estimated proposal development costs improperly charged to the Job Corps contract.
2. Recover \$3,000 in insurance cost associated with the GSA leased vehicle used by the CEO of the YWCA.
3. Direct the Center and the YWCA to comply with all provisions of DOL regulations and Center policy regarding the use of U.S. Government vehicles.

Agency Response

The National Director, Office of Job Corps, concurred with our recommendations and agreed to request return of the funds and direct the YWCA to comply with all Department of Labor's vehicle policies. The National Director, Office of Job Corps, also stated the Regional Office would closely monitor the YWCA's compliance.

OIG Conclusion

We agree with Job Corps' planned corrective actions and consider the recommendations resolved and open. The recommendations will be closed upon the OIG's verification that the funds have been requested and returned.



Elliot P. Lewis
May 25, 2006

Appendices

PAGE HAS BEEN INTENTIONALLY LEFT BLANK

BACKGROUND

Through a nationwide network of campuses, Job Corps offers career development services to at-risk young women and men, ages 16-24, to prepare them for successful careers. Job Corps employs a career development training approach which integrates the teaching of academic, vocational, and employability skills and social competencies through a combination of classroom, practical, and work based learning experiences to prepare youth for stable, long-term, high-paying jobs. Job Corps was originally established by the Economic Opportunity Act of 1964; current authorization for the program is Title I, Subtitle C, of the Workforce Investment Act of 1998.

Job Corps career development services to students include academic, vocational, social, and independent living skills, career readiness training, and support services. The combination of services provided in the Job Corps is intended to prepare youth to obtain and hold gainful employment, pursue further education or training, or satisfy entrance requirements for careers in the Armed Forces.

The Los Angeles Job Corps Center is managed by the YWCA. This is the only center the YWCA operates. For contract year 2006, the Los Angeles Job Corps Center had a student capacity of 735 and an annual budget of about \$19 million. Job Corps' San Francisco Regional Office was and continues to be responsible for monitoring the Los Angeles Job Corps Center.

PAGE HAS BEEN INTENTIONALLY LEFT BLANK

OBJECTIVE, SCOPE, METHODOLOGY, AND CRITERIA

Objective

Our audit objective was to determine if the allegations were substantiated. The complainant alleged the following:

- The YWCA charged the Job Corps contract for the cost of developing a proposal in response to a RFP issued by Job Corps for the operation of the Long Beach Job Corps Center.
- The CEO of the YWCA used a government vehicle for personal use.
- The YWCA charged unnecessary bank fees to the Job Corps contract.
- Costs for a new YWCA accounting system were improperly charged to the Job Corps contract.
- A child care center operated by the YWCA and used by Center staff and students was operated on contaminated land.
- Center employees were required to join an illegal pension fund operated by the YWCA.

Scope

We conducted our audit in accordance with Government Auditing Standards for performance audits issued by the Comptroller General of the United States. A performance audit requires obtaining an understanding of internal controls considered significant to the audit objectives and testing compliance with significant laws, regulations, and other compliance requirements. In planning our audit, we considered whether internal controls considered significant to the audit were properly designed and placed in operation.

The scope of our audit included a review of the following as related to the allegations in the hotline complaint: proposal development costs; the use of a government vehicle; bank fees, costs of an accounting system, land use, and pension plans. We reviewed transactions, as related to the allegations, processed by the Center between July 2001 and November 2005. We conducted our audit in Los Angeles and San Francisco, California.

Methodology

To determine the merits of the allegations, we interviewed Regional Job Corps staff, Center staff, a YWCA consultant, the CEO of the YWCA, and the President and Treasurer of the Board of Directors for the YWCA. We also reviewed cost schedules prepared by Center staff, Center Transportation Vehicle Master Lists, and relevant Federal laws, regulations, and guidance. In addition, we conducted a complete physical inventory of Center vehicles.

To meet our objective, we reviewed selected internal controls over payroll charges, vehicle use, and other relevant program activities and related expenditures. Our work on established internal controls included reviewing policies and procedures, interviewing key personnel, and reviewing selected documentation to observe the controls in place. Our testing related to internal controls focused only on the controls related to our audit objective of determining whether the allegations were substantiated and was not intended to form an opinion on the adequacy of internal controls overall, and we do not render such an opinion. Internal control weaknesses noted from our testing of controls are discussed in Objectives 1 and 2 of this report.

We conducted our fieldwork from October 3, 2005, through May 25, 2006. We conducted our audit in accordance with *Government Auditing Standards*.

Criteria

In addressing the audit objectives, we reviewed relevant Federal laws, regulations, and guidance. These included the following:

1. Job Corps PRH
2. Los Angeles Job Corps Center Contract
3. United States Code, Title 29.
4. OMB Circular A-122, Attachment A
5. OMB Circular A-87, Attachment B
6. ETA Property Management Handbook No. 359

ACRONYMS AND ABBREVIATIONS

CEO	Chief Executive Officer
DOL	Department of Labor
ETA	Employment and Training Administration
GSA	General Services Administration
OIG	Office of Inspector General
PRH	Policy and Requirements Handbook
RFP	Request for Proposal
YWCA	Young Women's Christian Association of Greater Los Angeles

PAGE HAS BEEN INTENTIONALLY LEFT BLANK

AGENCY RESPONSE TO DRAFT REPORT

U.S. Department of Labor

Office of Job Corps
Washington, D.C. 20210



SEP 27 2006

MEMORANDUM FOR: ELLIOT P. LEWIS
Assistant Inspector General for Audit
Office of Inspector General

FROM: ESTHER R. JOHNSON, Ed.D. *Esther R. Johnson*
Administrator
Office of Job Corps

SUBJECT: OIG Audit
Allegations of Misuse of Funds and Property at the
Los Angeles Job Corps Center
Report No. 09-06-005-01-370

I appreciate the comprehensive work your office put forth in reviewing the addressed allegations. The following is in response to the above stated OIG Audit Report.

Recommendation 1: "Recover \$300,870 representing the total estimated proposal development costs improperly charged to the Job Corps contract."

Response: Job Corps concurs and the Contracting Officer will prepare a letter to be sent to the Los Angeles Job Corps Center requesting the return of the above mentioned funds.

Recommendation 2: "Recover \$3,000 in insurance cost associated with the GSA leased vehicle used by the CEO of the YWCA."

Response: Job Corps concurs and the Contracting Officer will include in the above mentioned letter the request to return funds in the amount of \$3,000 regarding the cost of insurance associated with the GSA leased vehicle used by the CEO of the YWCA.

Recommendation 3: "Direct the center and the YWCA to comply with all provisions of DOL regulations and center policy regarding the use of U.S. Government vehicles."

Response: The YWCA will be directed to comply with all Department of Labor's vehicle policies and the Regional Office will closely monitor their compliance.

Thank you again for the time and commitment given by you and your staff.